RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1959

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

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AUGUST 1959

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REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

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

August 1959

CENTRAL, BOARD OF DIRECTORS

(As on June 30, 1959)

Governor	Shri H. V. R. Iengar
Deputy Governors	Shri K. G. Ambegaokar Shri Ram Nath* Shri B. Venkatappiah
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 J. R. D. Tata Prof. D. R. Gadgil Shri K. C. Mahindra Shri D. N. Mitra Col. B. H. Zaidi Shri G. Parameswaran Pillai
Director, Nominated under Section 8(1) (d)	Shri A. K. Roy Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

* Retired on July 8, 1959.

MEMBERS OF LOCAL BOARDS

(As on June 30, 1959)

WESTERN AREA

Shri Kasturbhai Lalbhai
Shri Mat huradas Mangaldas Parekh
Shri D. V. Potdar
Shri Mohan Lal Tannan
Shri G. V. Puranik

EASTERN AREA

Shri B. M. Birla
Dr. Bimala Churn Law
Shri D. N. Mitra
Shri B. P. Singh Roy
Mr. J. D. K. Brown.

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 P. Suryanarayana
Shri K. Ramunni Menon
Shri V. Emberumanar Chetty

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.
24th August 1959.

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 1959 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's auditors ;

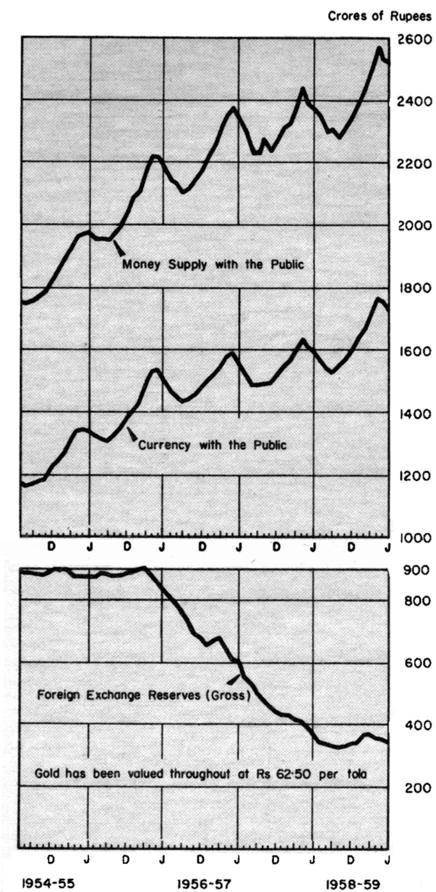
and

2) Two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1959.

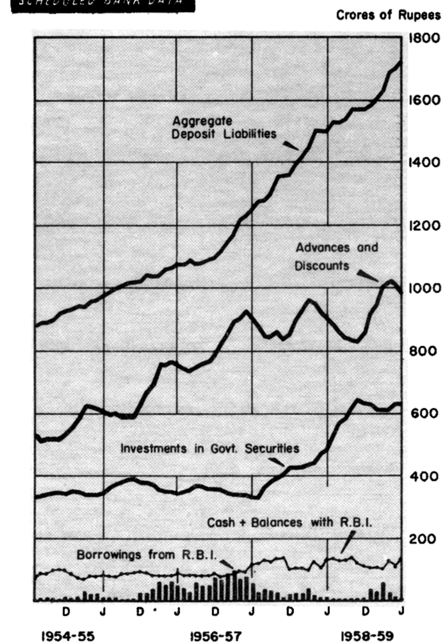
Yours faithfully,
H. V. R. IENGAR
Governor.

SELECTED ECONOMIC INDICATORS

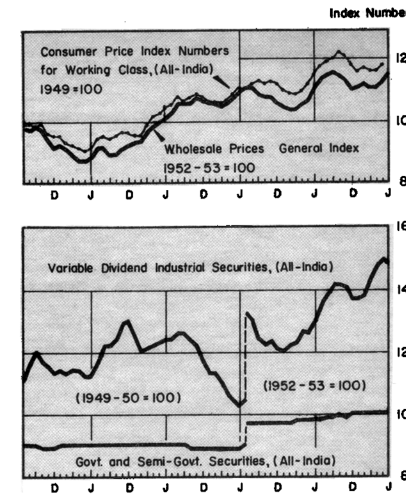
CURRENCY & BANKING



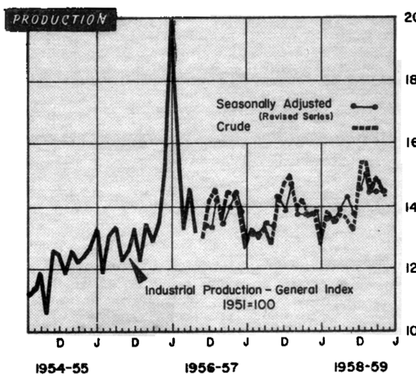
SCHEDULED BANK DATA



PRICES



PRODUCTION



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

For the year ***July 1, 1958—June 30, 1959***

Developments in the Economy

General

During the year under review, there was a marked slowing down of the rate of decline of foreign exchange reserves. The deficit in the Government budget also recorded a significant decline. A substantial increase in the output of foodgrains was another feature of the year, though the food situation is still not free from some anxiety. The rate of growth of industrial output, however, has been rather small, though in the latter half of the year some improvement was discerned. The sharp decline in imports appears to have contributed to the slowing down of industrial production and investment in the private sector, though the rising trend of share prices suggested a revival of investors' confidence. Outlay on the Plan in the public sector, however, recorded a further rise. Overall economic activity, judging from such indicators as railway wagon loadings and bank debits, appears to have recorded a rise during the year. The price situation continued to cause some concern during the greater part of the year. There was also a rather sharp expansion of money supply and bank credit in comparison with the year 1957-58, which, it may be recalled, was characterised by unusually slack conditions. On the whole, the economic outlook, which at about the beginning of the year was somewhat obscure, with doubts about the successful implementation of the revised targets of the Plan, showed a distinct improvement in the course of the year, an important contributory factor being the enlarged flow of foreign aid.

2. The keynote of credit policy continued to be one of general restraint, with specific encouragement to sectors which stood in need of special assistance. The Bank continued to

exercise restraint on credit through the flexible operation of selective credit controls and also through moral suasion. At the same time, the debt management policy was so operated as to absorb a substantial portion of the additional liquid reserves of the banking system. Progress was also made during the year in the spheres of expansion of commercial bank branches, co-operative credit and industrial finance.

Production Trends

3. Overall **agricultural** production declined sharply during 1957-58, the general index (1949-50=100) declining by 8.4 per cent to 113.4, due to extremely unfavourable weather conditions. The foodgrains index fell by 11 per cent (the fall in terms of tonnage being from 68.7 million to 62.0 million) while the decline in the case of non-foodgrains was 3.6 per cent. In 1958-59, however, total agricultural production, as indicated by available provisional estimates, appears to have recorded a marked rise. Production of foodgrains is estimated at 73.5 million tons. Propects for commercial crops are also reported to be generally satisfactory.

4. ***Industrial*** production registered a further increase in 1958, but the rate of increase declined for the second year in succession. The average general index of industrial production (base: 1951 =100) at 139.7 showed an increase of 1.7 per cent only as compared to 3.5 per cent in 1957 and over 8 per cent in 1956. Since the turn of the year, however, the rate of growth has picked up, the average index for the first four months of 1959 at 148.9 showing an increase of 4.6 per cent as compared to the index for the corresponding period of 1958. The slackening in the rate of industrial growth during 1958 was largely due to the decline of 5.8 per cent in the cotton textiles group which has a weightage of 36 per cent in the general index. Sugar and automobiles also declined by 5.4 per cent and 16.1 per cent, respectively. As against these, substantial increases were recorded under several other groups, including the new industries established in 1951 or after and not included in the general index. The fall in the production of cotton textiles was due mainly to fall in foreign demand and aggressive foreign competition, the exports of mill-made cloth falling from 840 million yards in 1957 to 582 million yards in 1958. With a view to providing further relief to the cotton textile industry, several measures were taken during the year and, partly as a result of these measures and partly of a revival of internal demand during the latter part of

the year, the stocks of cotton textiles with the mills which had mounted to 537 million yards in October 1958, declined substantially to 341 million yards at the end of May 1959.

Commodity Prices

5. During the year, the price situation again caused some concern. The uptrend of wholesale prices noticed since February 1958 continued during the early part of the year under review. The general index (base : 1952-53=100), which had risen from 104.1 in early February 1958 to 113.3 at the end of June 1958, rose further to a peak of 116.9 by mid-September 1958 and hovered around that level through October. Thereafter, the index declined almost continuously to 110.7 in early January 1959 ; in the next three months there were small two-way movements. Since April, however, the uptrend re-appeared, the index rising to 115.7 by the end of June. Thus, for the year as a whole, the net rise was 2.1 per cent, as compared to a rise of 2.3 per cent in the preceding year. Of the principal groups, 'food articles' rose by 2.1 per cent, 'industrial raw materials' by 4.5 per cent and 'manufactures' 1.0 per cent. It should be noted that the rise in the 'food articles' index was accounted for by sub-groups other than 'cereals,' in particular 'edible oils' and 'sugar and gur'; the cereals index actually declined by 3.7 per cent, wholly under rice. The rise in the 'industrial raw materials' group was also largely under oilseeds. The average general index for the year as a whole was higher than that for the previous year by 5.1 per cent as compared to an increase of 1.2 per cent in the preceding year.

6. The rising trend of prices in the first phase (July-October 1958) mainly reflected the impact of the sharp decline in the output of foodgrains in 1957-58. The decline in the second phase was mainly due to expectations of substantial improvement in the 1958-59 output of foodgrains. The rise in the third phase, i.e., since April 1959, would appear to be partly seasonal ; the estimated record production of foodgrains is, however, not fully reflected in the price indices. This suggests, what is also borne out by *ad* hoc inquiries, that the inflow of supplies to the markets has been affected to some extent by the announcement of introduction of state trading in foodgrains. Bank finance has played hardly any role in this matter, the increased stocking of rice and wheat being either privately financed or self-financed, that is, representing the increased holding power of the farmers themselves. Part of the increase in output may also have gone

to replenish the depleted stocks of food grains owing to the poor harvest of 1957-58. Basically, the output of foodgrains is insufficient for the needs of the economy and the importance of giving top priority to agricultural output in general and food output in particular cannot be over-emphasised. The Bank is making its contribution to this end by enlarging the flow of credit to the rural sector.

7. The movements in the all-India working class consumer price index number generally followed the trends in the wholesale price index. The index (base: 1949=100) rose from 116 in June 1958 to 123 in October after which it declined to 117 in April 1959 and stood at 119 in May, which is 5.3 per cent higher than a year before. The annual average for 1958-59 (11 months) also worked out 6.2 per cent higher as compared to the year 1957-58. The indices for the various centres, however, show somewhat divergent trends.

Monetary Situation

8. In the monetary sphere, the main feature was the substantial rise in money supply as well as bank credit. During the Bank's accounting year, money supply with the public expanded by Rs. 152 crores to Rs. 2,531 crores as compared to a moderate expansion of Rs. 36 crores in 1957-58 and an expansion of Rs. 155 crores in 1956-57. The expansion was almost entirely in currency with the public, the bulk of expansion of bank deposits being in time deposits which are not included in computing money supply. The larger expansion during the year was principally due to two factors : (i) the substantial expansion in bank credit, and *(ii)* a marked decline in the balance of payments deficit which had been the main neutralising factor in the preceding two years. The seasonal swings in money supply in 1958-59 were more pronounced than in 1957-58. In the 1958 *slack* season (May-October), there was a contraction in money supply of Rs. 157 crores which was about twice that in the 1957 ***slack*** season (Rs. 83 crores), the larger contraction reflecting mainly the sharp fall in bank credit. This contraction was more than offset by the record expansion of Rs. 289 crores in the 1958-59 ***busy*** season (November 1958—April 1959), as compared to Rs. 167 crores in the ***busy*** season of 1957-58. The larger increase in the ***busy*** season of 1958-59 stemmed mainly from a sharp rise in bank credit and the re-emergence, for the first time since 1955-56 ***busy*** season, of a moderate balance of payments surplus as measured by the movements in the foreign assets of the Reserve Bank.

9. The banking situation continued to be characterised by a state of ample liquidity though, during the *busy* season, stringent conditions re-emerged. The significant feature of the banking situation during the year was the expansion of scheduled bank credit by Rs. 81 crores (from Rs. 903 crores to Rs. 983 crores) or by about 9 per cent in contrast to a contraction of Rs. 15 crores in the Bank's previous accounting year and an expansion of Rs. 161 crores in the year 1956-57. Of the rise in advances in 1958-59, *secured* advances totalled Rs. 64 crores as compared to less than Rs. 1 crore in 1957-58. Security-wise, there have been changes as compared to 1957-58, reflecting the growth of agricultural output and the recent revival of industrial output.

(Rupees in crores)

	Group	Variation in 1958-59	Variation in 1957-58	Outstanding at the end of 1958-59	Percentage of each group in col. 3 t total
		1	2	3	4
1.	Foodgrains	+ 5.28	-15.34	30.02	3.67
2.	Industrial Raw Materials	+12.25	— 0.99	121.62	14.88
3.	Plantation Products . .	— 0.77	+ 8.70	42.11	5.15
4.	Manufactures & Minerals	+ 17.86	-12.92	339.66	41.52
5.	Other Securities . .	+29.74	+21.37	284.43	34.78
6.	Total Secured Advances	+64.36	+ 0.80	817.84	100.0

Although, over the year, the largest percentage rise of 21.4 was recorded by the foodgrains group, the outstanding amount of these advances at the end of June was only Rs. 30 crores or 3.7 per cent of all *secured* advances. The credit-deposit ratio declined from 60.1 per cent at the end of June 1958 to 56.6 per cent at the end of the year under review. However, if P. L. 480 deposits are excluded there would be hardly any net change in the ratio.

10. The growth of deposits and the expansion of the gilt-edged portfolio were more or less of the same magnitude as in the year 1957-58. Aggregate deposit liabilities rose by Rs. 234

crores, almost the entire increase, as in the previous year, being accounted for by time liabilities. The gilt-edged portfolio of scheduled banks recorded a rise of Rs. 149 crores. Scheduled banks' borrowings from the Reserve Bank recorded a further net decline of Rs. 12 crores as compared to Rs. 47 crores in 1957-58. A good part of the rise in deposits, as in the preceding year, represented the accrual to the U. S. Government's balances in India of counterpart funds arising from P. L. 480 imports. A small part of the increase was also accounted for by the inclusion of some new banks in the Second Schedule to the Reserve Bank of India Act. The turnover of deposits also recorded a rise, the annual rate of turnover of current deposits for the IO-month period July 1958 — April 1959 being 51.6 as compared to 46.1 per cent in the corresponding period of 1957-58 ; it may be added that the rate has recorded a steady rise from 22 .O in 1944, after registering a gradual decline from ***42.3*** in 1937.

Il. While the expansion of scheduled bank credit over the year may not be regarded as unduly high, the expansion in the ***busy*** season (November **1958—April** 1959) was abnormally large, amounting to Rs. 182 crores or about twice the expansion in the preceding ***busy*** season. During this period scheduled banks borrowed Rs. 25 crores from the Reserve Bank and sold a small amount of Government securities (Rs. 3 crores), whereas in the preceding ***busy*** season, banks had repaid a part of their loans from the Reserve Bank and added substantially to their gilt-edged portfolio. Security-wise, a little over one-third of the expansion of credit in this period was against industrial raw materials (advances against oilseeds being substantial) and another third was against manufactures. Advances against foodgrains recorded a rise of Rs. 9.50 crores.

12. Reflecting the easy conditions during the first phase, which lasted upto November 1958, the inter-bank call rate in Bombay declined from **3-4$\frac{1}{8}$** per cent in June to 1-3 per cent by November.* In Calcutta also, during the same period, the call rate dropped from **3$\frac{1}{8}$ - 4$\frac{1}{2}$** to **1-2$\frac{3}{4}$** per cent. With the progress of the ***busy*** season, however, the inter-bank call rate in Bombay rose to **3$\frac{1}{2}$-3$\frac{3}{4}$** per cent by May, but dropped to **1-3$\frac{1}{2}$** per cent in June. In Calcutta, the rate reached the year's high of **3$\frac{1}{2}$-4$\frac{1}{2}$** per cent in April and declined to **3$\frac{1}{4}$-3$\frac{3}{4}$**

* Subsequent to September 1958, the rates are exclusive of brokerage.

per cent in June. As regards term rates, there were no significant variations either in Bombay or in Calcutta.

13. An interesting development in the Indian money market during the year was the conclusion, by the more important Indian and foreign banks having deposits of Rs. 5 crores or more, of a voluntary agreement, fixing ceilings on interest rates payable on all forms of deposits other than inter-bank deposits. It may be recalled here that in the preceding two years or so, there had been a severe competition among banks for deposits through a bidding up of interest rates. With the change to easy money conditions since then, as a result of the substantial rise in deposit resources and the relatively stagnant demand for funds following the drastic import curbs, deposit competition had grown weaker and the voluntary agreement was designed to rationalise the structure of interest rates on deposits. Under the agreement, which became operative on October 1, 1958, no interest is payable on deposits on call or on notice of less than seven days while the ceiling rates on time deposits for less than three months and on those for 3 months and over are fixed at 39 per cent and 4 per cent, respectively. As regards savings bank accounts, the maximum rate payable is fixed at 2½ per cent on minimum monthly balance and the maximum amount on which interest is payable is fixed at Rs. 50,000.

Government Finances

14. Government finances continued to be dominated by the rising Plan outlay which is estimated. to have amounted to Rs. 981 crores in 1958-59 (April-March) as compared to Rs. 846 crores in 1957-58 and Rs. 639 crores in 1956-57. The budgetary deficit (Centre and States) for 1958-59, however, was much lower at Rs. 136 crores as compared to Rs. 503 crores in 1957-58 and Rs. 253 crores in 1956-57, due mainly to larger receipts under internal loans as well as external assistance. For 1959-60, the Plan outlay is estimated at Rs. 1,121 crores while the budgetary deficit is estimated at Rs. 228 crores.

15. Net market borrowings of Central and State Governments during 1958-59 (April-March) together amounted to Rs. 227 crores as compared to Rs. 71 crores in 1957-58 ; a good part of the improvement is, however, explained by a special factor, namely, investment of P. L. 480 counterpart funds by the State Bank of India. Net borrowing of the Centre in 1958-59 amounted to Rs. 181 crores as com-

pared 'to Rs. 66 crores in 1957-58. Reference was made in the last year's Report to the three Central Government loans floated in May 1958, total subscriptions to which amounted to Rs. 142 crores of which Rs. 9 crores were on account of conversion. In August 1958, the Central Government issued two more loans, namely, the 39 per cent Loan 1968 and the $3\frac{1}{2}$ per cent National Plan Bonds 1967 (Third Series) for Rs. 30 crores each, the entire amount of both of which was initially taken up by the Reserve Bank. As regards the State Governments, as many as 11 States entered the market during 1958-59 for an aggregate amount of Rs. 50 crores. All the loans were over-subscribed, the total subscriptions amounting to Rs. 66 crores of which Rs. 54 crores (including conversions amounting to Rs. 5 crores) were accepted. Auction sales of Treasury bills which were resumed towards the close of July 1958 brought in net receipts (including 'intermediates') amounting to Rs. 25.5 crores during 1958-59 ; for 1959-60, credit has been taken for an addition of Rs. 15 crores under this item.

16. Gross borrowing of the Centre in 1959-60 (April-March) is estimated at Rs. 225 crores. Net borrowing (taking into account cash payment of Rs. 117 crores) would be Rs. 108 crores. The Central Government floated on July 1, 1959 two loans for Rs. 175 crores, namely, the $3\frac{1}{2}$ per cent Bonds 1969 at an issue price of Rs. 98.85 per cent and the 4 per cent 'Loan 1979 at Rs. 100 per cent. The 3 per cent Second Victory Loan 1959-61 and the $2\frac{1}{2}$ per cent Hyderabad Loan 1954-59 were accepted for conversion into the new loans. The loans were fully subscribed. State Governments also entered the market in August 1959 for an aggregate sum of Rs. 61.50 crores. Total subscriptions amounted to over Rs. 100 crores of which about Rs. 68 crores were accepted.

17. The performance of small savings, however, continues to be below expectations; total receipts in 1958-59 (April-March) at Rs. 78 crores (provisional), though Rs. 9 crores larger than in 1957-58, were considerably smaller than the budget provision of Rs. 100 crores. The target for 1959-60 has been fixed at Rs. 85 crores . Further measures were taken during the year to intensify the small savings drive, including (i) extension of facility for by-weekly withdrawal first introduced on an experimental basis in selected post offices, to all post offices doing savings bank business', *(ii)* raising of the limit of some types of investment for charitable institutions, banks, incorporated companies

and registered firms and the removal of the limit in the case of provident funds, and (iii) allowing an ex-gratia payment of interest at 2½ per cent per annum to investors in National Savings Certificates in cases of delay in encashment after maturity by the post office. The Post Office Savings Bank (Cumulative Time Deposits) Scheme, referred to in the last year's Report, was brought into effect on January 2, 1959. The slow progress of the small savings campaign indicates that a more intensive effort needs to be made, in particular by the State Governments.

Capital Markets

18. The main feature of the capital market during the year was a distinct revival of investors' confidence. Although the volume of investment and new issue activity did not appear to have shown any significant change, the response to such of the issues as were made was generally good. The growing investors' confidence may be attributed to the generally optimistic view taken in regard to the future of industries, aided mainly by the materialisation of larger foreign aid and the various governmental measures to assist industry. The rise in share prices reflected this optimism. The Reserve Bank's index of variable dividend industrial securities (base: 1952-53 = 100), which had begun to rise in the latter half of the Bank's accounting year 1957-58, moved up further from 133.2 at the end of June 1958 to 144.7 at the end of September and, after receding to 136.1 in December, rose sharply again to 151.0 at the end of June 1959. Over the year the index showed an increase of 13 per cent as against a net decline of 3 per cent in 1957-58. The somewhat sharp rise which has occurred since the turn of 1959 represented mainly the market's reaction to the Central Government Budget for 1959-60, the main bull points being the abolition of the excess dividend tax and wealth tax on companies and also to some extent the larger scale of deficit financing envisaged for 1959-60 than had been anticipated earlier.

19. Reflecting mainly the extremely easy conditions during much of the year, the gilt-edged market ruled generally firm. The floatations by State Governments of loans aggregating Rs. 47.5 crores in August 1958 (the Bihar Loan for Rs. 2.50 crores being issued later in October) were absorbed without strain and there was a good demand for short and medium-dated issues almost throughout the year. The prevailing conditions enabled the Reserve Bank to sell securities at rising rates. Net sales of Government securities to the market amounted to

Rs. 100 crores as compared to Rs. 70 crores in the previous year. The fact that the Bank has been mainly a seller in the last two years has helped to reduce the liquidity of banks. The Reserve Bank's index of prices of Government of India securities (base : 1952-53=100) rose from 98.9 at the end of June 1958 to 100.7 at the end of June 1959. Among individual loans, the largest rise of Rs. 4.25 was recorded by the 3 per cent Loan 1970-75 at Rs. 91.65. The 3 per cent Conversion Loan of 1946, which had declined by Rs. 1.90 last year, recovered by Rs. 2.60 to Rs. 73.70. As a result of the sustained firmness in gilt-edged prices, the yields declined ; the average yield on short-dated declined by about 0.30 per cent and that on irredeemables by about 0.15 per cent. State loans also were in keen demand, particularly from institutional investors, and recorded substantial rises over a wide front.

Balance of Payments

20. A relieving feature of the Indian economy during the year was the marked lessening of the strain on the country's balance of payments. Over the Bank's accounting year, foreign assets of the Reserve Bank declined by only Rs. 21 crores as compared to Rs. 242 crores in 1957-58 and Rs. 230 crores in 1956-57.* There was pressure on these reserves upto end-October 1958 when they declined to as low as Rs. 178 crores (exclusive of gold reserve of Rs. 118 crores) as compared to Rs. 214 crores at the end of June 1958. This was followed between November 1958 and March 1959, by a steady accretion to the reserves. From April, there was a resumption of the decline which amounted to Rs. 21 crores during the last quarter. At the end of June 1959, the reserves stood at Rs. 193 crores, barely Rs. 15 crores above the low mark reached in October 1958. July 1959, however, witnessed a further drop of Rs. 13.6 crores and on July 31, the reserves had touched the lowest post-war level at Rs. 177.8 crores.

21. The ***current account*** deficit during the first nine months of the year, for which details are available, was Rs. 219 crores as compared to Rs. 322 crores in the corresponding period of the previous year. Export earnings were lower and the public sector imports slightly higher ; the narrowing down of the deficit was, therefore, due entirely to the sharp reduction (Rs. 113 crores) in private imports. The impact of the reduction was felt main-

+ After taking credit for I.M.F. assistance of Rs. 95 crores.

ly by imports of machinery and iron and steel. There were, however, a few items such as mineral oils, raw cotton and chemicals which were allowed to flow in slightly larger quantities, in view of the growing needs of maintenance. Public sector's imports at Rs. 393 crores were higher by Rs. 11 crores. The rise was concentrated mainly in developmental imports such as capital equipment for Government projects financed through foreign aid, and a major part of food imports obtained under the P. L. 480 and TCA programmes. Other Government imports, particularly of the non-developmental type, were curtailed. Export earnings at Rs. 449 crores were lower by Rs. 6 crores during the nine-month period. Although business conditions abroad had almost recovered from the general slackness witnessed in the first few months of 1958, the international demand for our major exports, *viz.,* jute goods, manganese ore and cotton textiles continued to be low. To some extent, lower exports also reflect the basic phase of the developmental process through which the Indian economy is passing. There is some indication that the pressure of internal demand arising from the developmental activity has resulted in a diversion of exportable raw materials and consumer goods to the home market. The few exceptions to the general downtrend were provided by tea and raw cotton exports which developed favourably on better foreign demand.

22. A reference was made in the last year's Report to the various measures taken by the Government to promote exports. During the year under review, efforts in this sphere were intensified. About 200 export items, including cotton and jute goods were freed from export control and export duties were either abolished (as in the case of oilseeds and manganese ore) or reduced (as in respect of tea and raw cotton). The concessions of rebates on excise and customs duties were extended to cover a larger number of export items. Besides these, special schemes for stimulating exports were introduced, such as the Textile Export Incentive Scheme and the scheme for compulsory export of sugar. These measures have not yet produced any impact on export earnings, which in fact recorded a further slight decline. In a developing economy, import cuts do not constitute an effective remedy for balance of payments difficulties in the long run ; exports should be stepped up, which in practical terms means that the nation has to restrict consumption and render exports attractive to foreigners.

23. On the other hand, the quantum of external assistance has shown a significant increase. The 1. B. R. D. convened meetings in Washington in August 1958 and March 1959 of five nations, namely, the U. K., U. S. A., Japan, Canada and West Germany to explore means of meeting India's foreign exchange requirements during the rest of the Second Plan period. As a result of the first meeting, foreign assistance worth $ 360 million was made available ; at the second meeting a sizeable amount was promised to bridge the foreign exchange gap in 1959-60. Including a carry-over of Rs. 190 crores which had remained unutilised at the end of the First Plan, total external assistance authorised upto the end of June 1959 is estimated at Rs. 1,228 crores. Of this, Rs. 697 crores is estimated to have been utilised upto March 1959 so that Rs. 531 crores is available for utilisation in the last two years of the current Plan.

24. The inflow of private foreign capital has continued to remain at a low level in relation to foreign Governmental assistance and World Bank aid. Total fresh capital receipts from private sources abroad amounted only to Rs. 6 crores in 1958 (provisional estimates) as against Rs. 16.3 crores during 1957 and Rs. 11.6 crores in 1956. These figures are inclusive of petroleum investments which showed large fluctuations. Excluding petroleum investments, the private capital investments were Rs. 5.5 crores in 1958 as compared to Rs. 4.1 crores in 1957 and Rs. 8.8 crores in 1956. The disappointingly small inflow of private foreign capital indicates the need for further efforts for creating a better climate for investment, including simplification of procedures.

Monetary and Credit Policy

25. The foregoing analysis of the Indian economy during the year indicates that no major shift in credit policy was called for. The Bank's policy has continued to be one of general restraint, bearing in mind the requirements of a developing economy. There was again no change in the Bank's lending rates. As already mentioned, open market operations were continuosly employed to absorb the growing reserves of the banking system. The selective credit control was continued in respect of advances against foodgrains and sugar with suitable modifications ; the control was extended to cover advances against groundnuts. The sharp expansion of credit in the busy season caused some concern to the Bank, but this had to be considered against the background of a ***decline*** in credit in the previous year as well

as a fairly sharp decline in the 1958 ***slack*** season. Moreover, there were reports of a substantial increase in agricultural production, and industrial output too showed signs of picking up. In these circumstances, it appeared that it would be adequate to caution banks generally to go rather slow in the matter of credit expansion. In the last week of February 1959, the Governor issued a circular calling upon banks to exercise restraint in the further expansion of credit during the current busy season and to limit to a minimum their reliance on the Bank for funds. In particular, banks were asked to make a rigorous scrutiny of clean advances. Nevertheless, as already stated, net expansion of bank credit in the 1958-59 ***busy*** season was as large as Rs. 182 crores. Another circular was, accordingly, issued by the Governor on June 15, 1959, following a general discussion with bankers, drawing attention to the imperative need of effecting a significant reduction of credit in the ***slack*** season, at least of Rs. 100 crores (or by about 10 per cent), as compared to Rs. 118 crores in the 1958 ***slack*** season. This would still leave the level of scheduled bank credit at the end of the ***slack*** season 10 per cent higher than that a year earlier, and would thus provide for net expansion to cater to the requirements of an expanding economy. The reduction, it was pointed out, would also enable banks to meet the credit requirements of the next ***busy*** season without much strain and without large scale resort to the Reserve Bank.

26. The Bank continued to operate with flexibility its selective credit controls in the light of changing conditions of demand for and supply of the relevant essential commodities. In September 1958, the Bank tightened somewhat the restrictions on advances against wheat, following a sharp rise in bank advances against this commodity in certain areas, particularly in the Punjab and the continued rise in wheat prices. In December 1958, the Bank issued a new directive, which, while continuing generally the existing structure of control on advances against all foodgrains, made a change in the method of calculating the ceiling limits on advances against them ; the ceiling limits for each month in 1959 were related to the levels in the corresponding month in 1958. Following the introduction of state trading in Orissa, where purchases, of rice by purchasing agents on behalf of the State Government were initially made with their own funds, the ceiling limits in that State were liberalised in April 1959 in favour of such purchasing agents to facilitate the Government's procurement programme. With other

State Governments also adopting a limited programme of procurement of foodgrains, either on their own account or for the Central Government, it became necessary to modify further the control on foodgrains advances by scheduled banks. The procedures of procurement and the methods of reimbursing the wholesalers for purchases made by the Governments varied from State to State. In some States, as in the Punjab, where the Government entered into storage delivery contracts with wholesalers for procuring wheat, an increase in credit to such persons was called for ; in other States like Madras, with procurement operations of Government financed by commercial bank credit, the stocks with the trade were reduced calling for a reduction of credit. Thus, in order to regulate credit to the trade in accordance with the differing needs of the situation obtaining in the major States, and also in conformity with the seasonal changes in the demand for credit, the Bank issued on July 10, 1959 a circular letter modifying and consolidating the existing directives in respect of all foodgrains. A new feature of this directive was that ceiling limits for banks were prescribed specifically in a larger number of major States and individually for paddy and rice, wheat and other foodgrains.

27. During the year, the Bank brought within the purview of the control yet another commodity, namely, groundnuts, the prices of and advances against which recorded a steep rise in January 1959. The Bank's directive issued on February 9, 1959 prescribed a minimum margin of 45 per cent on such advances and stipulated ceiling limit on advances of individual banks at levels not exceeding those maintained in the corresponding month of 1957 or 1958, whichever was higher. Vanaspati manufacturers and persons holding valid licences for export of groundnuts were exempted from the margin requirement.

28. The banks generally co-operated in carrying out the provisions of the directives issued from time to time. This was reflected in the fact that advances against foodgrains were, on the whole, below the permitted levels. Advances against groundnuts were brought down from Rs. 23 crores in the first fortnight of February 1959 to Rs. 17 crores in the second fortnight of March; while this order of reduction fell short of the requirement under the directive, because of the advance commitments of banks, the excess was considerably reduced in April and in May advances were below the prescribed limit.

29. Selective controls are not designed to correct the general inflationary pressures within the economy nor is their success to be judged precisely by the extent to which the prices of the relevant commodities have fallen ; prices are dependent on various other factors bearing on the demand and supply position of the commodities. The controls by arresting an undue expansion of credit in the *busy* season and accelerating its reduction in the *slack* season may be expected to exercise, only a limited, perhaps a marginal effect on prices, more **particulary** when banks have large liquid resources.

30. In the course of the year, there emerged a clearer prospect of the Second Plan which a year ago was rather obscure.

The Prospect

Though the Plan had been somewhat pruned, its fulfilment still remained in doubt, especially on account of the shortage of foreign exchange resources. In this regard, the outlook has under gone a change for the better and the prospects of implementing the revised Second Plan in financial terms are now more assured. It would not seem, however, that the 25-27 per cent increase in national income that was expected in the Plan is likely to be achieved. The economy is likely to be subject to further strains and the problem of resources for the Plan continues to be a source of concern. After a moderate improvement in reserves for about five months largely helped by accruals of foreign assistance, the foreign exchange reserves have again begun to fall since April 1959. Commodity prices have also been showing an uptrend. While the quantum of deficit financing in the financial year 1958-59 showed a welcome drop, it is estimated to be larger in the current financial year and it is not unlikely that the original estimate of deficit financing of Rs. 1,200 crores for the Second Plan period as a whole will be exceeded notwithstanding the substantial increase in foreign assistance over and above what was provided for in the Plan and the sizeable assistance under P. L. 480 imports. In this context, the Bank cannot over-emphasise the imperative need for a satisfactory rate of increase in food production, a point that has been dwelt upon in the Bank's earlier Reports too. The substantial increase in food output that has occurred in 1958-59 should be seen against the background of a sharp decline in 1957-58 which depleted the pipeline stocks, and a population expanding at the rate of almost 2 per cent per annum.

31. An effort to secure even the rate of growth projected for the Second Plan would involve during the Third Plan period a high order of investment. While this conclusion seems to find ready and general acceptance, there appears to be insufficient appreciation of its implications in terms of the measure of internal effort and external assistance required for its successful accomplishment. Unless the requisite internal resources and foreign aid are forthcoming, much larger expenditure programmes are likely to jeopardise economic and monetary stability to the point of endangering their very fulfilment. With rising national **income it** should be possible to direct a progressively larger proportion of it into investment, but the task of **mobil**isation of resources is made difficult by the wide dispersion of new income over the economy and the generally small surplus over subsistence in the incomes of the mass of the population. Success in this task is conditioned on the one hand by the organisational and administrative difficulties of the Government and on the other by the extent to which the constructive energies and enthusiasm of the people can be released and channelled into the service of development. A shortfall in resources manifests itself in a rise in prices, especially of essential commodities, which affects particularly adversely the economic position of the weakest and most vulnerable sections of the community, including landless agricultural labourers. A rise in prices thus accentuates economic inequality and in turn sets up strong pressures for a rise in wages and for other adjustments which are liable to disturb seriously and to distort the course of development. The maintenance of monetary stability during the process of development thus becomes an objective of prime importance in the very interest of successful achievement of the targets of development itself.

32. With the utmost intensification of domestic effort and improvement of exports, the country would have to depend for some years to come on foreign assistance on a substantial scale, **until the** economy reaches the stage of self-sustaining growth. **In this context,** it is desirable from time to time, to

assess policies and procedures with a view to stimulating the flow of private capital from abroad.

33. In the task of ensuring development with stability, the keynote of monetary policy would have to continue to be one of general restraint simultaneously with expansion of institutional facilities for provision of credit to specific sectors in particular agriculture and small-scale industry. The banking system would also have to be geared to the task of larger mobilisation and channelling of resources. All this would inevitably require greater provision of finance by the Reserve Bank itself. In view of the inflationary potential in the economy, the Bank would have to keep such financing within limits and to the maximum extent direct it toward development and promotion of the productive resources and facilities of the economy.

Banking Legislation

The Reserve Bank of India (Amendment) Act, 1959

34. On May 1, 1959, the Reserve Bank of India (Amendment) Act, 1959, was enacted providing for the issue of a special series of India notes in replacement of the India notes circulating in certain territories in the Gulf States of Kuwait, Bahrain, Qatar, the Trucial States and in parts of Muscat. The object of this legislation was to check the drain on India's foreign exchange reserves arising from conversion into sterling of large amounts of India notes smuggled out, for financing the smuggling of gold and other commodities into India. The special notes will not be legal tender in India but will be freely convertible into Indian rupees and into sterling. Facilities were provided at all banks functioning in the Gulf States and Muscat for the exchange of the existing Indian currency into special notes for a period of six weeks from May 11, 1959 to June 21, 1959, the amount of notes so exchanged totalling Rs. 48.66 crores. The previous facilities for the exchange of Indian currency notes into sterling were withdrawn with effect from June 22, 1959 and the redemption into sterling was limited only to special notes issued in exchange for the notes now in circulation plus future issues against which sterling will be received. Special Haj notes were also issued, for supply to pilgrims proceeding on Haj to Saudi Arabia to ensure against India notes being smuggled out of India and presented to the Reserve Bank later through Saudi Arabia for reimbursement into sterling.

35. During the year, legislation was also introduced to amend the Banking Companies Act and the State Bank of India Act.

Amendment to Banking Companies Act

36. The Bill to amend the Banking Companies Act seeks, among other things, (1) to provide for inspection, by the Reserve Bank, of offices of Indian banks outside India (2) to enable the Reserve Bank to apply on its own initiative for the winding up of a banking company under certain circumstances, (3) to exclude depreciation in the value of a banking company's investments in approved securities and in shares, debentures or bonds and losses on account of bad debts from the purview of Section 15 which lays down that no banking company shall pay any dividend until all its capitalised expenses, or losses incurred, have been completely written off; the effect of the proposed amendment will be that a banking company may pay a dividend on its shares without writing off the depreciation in the value of its investments in approved securities in any case where such depreciation has not actually been capitalised or otherwise accounted for as a loss, while in the case of depreciation in the value of shares, debentures and bonds and losses on account of bad debts, adequate provision will have to be made before a banking company could pay a dividend, and (4) to introduce some flexibility in regard to the maintenance and use of the reserve fund.

The State Bank of India (Subsidiary Banks) Bill

37. The State Bank of India (Subsidiary Banks) Bill, introduced on March 4, 1959, seeks to give effect to an agreed arrangement in terms of which 8 State Associated Banks, namely, the Bank of Bikaner, the Bank of Indore, the Bank of Jaipur, the Bank of Mysore, the Travancore Bank, the State Bank of Hyderabad, the Bank of Patiala and the State Bank of Saurashtra are to be set up as subsidiaries of the State Bank of India by the passing on of majority interest (in some cases whole interest) in the capital of these institutions to that bank. The subsidiary banks will, however, continue to retain their separate entity. The proposed arrangement will help to achieve the objective of an integrated banking and treasury set-up, which, with different units consisting of the State Bank and subsidiary banks, will cover the whole of India.

38. Another Bill, namely, the State Bank of India (Amendment) Bill, 1959, which was introduced on February 23, 1959, is mainly clarificatory in nature and seeks, among other things, to simplify the procedure in regard to taking over of the business of any banking institution which the State Bank acquires through negotiation in terms of Section 35 of the State Bank of India Act and to make clear that the acceptance of shares of companies with limited liability as a primary security for extension of credit by the bank is not permitted.

The State Bank of India (Amendment) Bill, 1959

Banking Development

39. In a developing economy, the promotional aspect of Central banking is just as important as the regulatory aspect. In recent years the range of activities of the Reserve Bank has come to be steadily enlarged, particularly in the sphere of rural credit and also in regard to the development of commercial banking and of the institutional machinery of industrial finance. The year under review recorded further progress in these directions.

40. In line with the developmental role assigned to the State Bank of India, it continued to open new branches in semi-urban and rural areas, the total number of branches opened during the year under review being 94 as compared to 115 last year. The total number of branches opened by the Bank since its inception in July 1955 comes to 311 as against the five-year target of 400 new branches set for it in its statute. Of the branches opened so far, 245 are at centres having a population of 30,000 or less. The State Bank of Hyderabad also opened branches at four centres in the territories of the former Hyderabad State. All these branches have been provided with currency chests in order that adequate exchange and remittance facilities may be made available to banks and the public.

state Bank of India

41. Mention was made in the last year's Report that arrangements were being made for the State Bank of India taking over the Manipur State Bank. This was done at the close of business on January 24, 1959. Similar arrangements in regard to three other minor State-associated banks are in different stages of progress, while a few other cases are at the stage of consideration by the State Bank of India.

42. During the year, the loans and advances of the Industrial Finance Corporation of India recorded a rise of Rs. 4.61 crores, as compared to one of Rs. 6.84 crores in 1957-58. The amount outstanding at end-June 1959 was Rs. 33.35 crores. The Corporation approved five schemes for guaranteeing of deferred payments in respect of imports of capital goods and also underwrote one redeemable and convertible debenture issue for Rs. 1.60 crores jointly with two other financial institutions and one cumulative redeemable preference share issue to the extent of Rs. 37.5 lakhs. The Corporation augmented its resources further to the extent of about Rs. 4.38 crores through the issue in November 1958 of 4) per cent Bonds 1968, the total outstandings of bonds as at the end of June 1959 being Rs. 16.75 crores. The Government of India has also earmarked a sum of Rs. 10 crores from out of P. L. 480 funds for loans to the Corporation.

Industrial Finance

43. The advances of the State Financial Corporations recorded a rise of Rs. 2.21 crores as compared to one of Rs. 2.44 crores in 1957-58. With the establishment of a Corporation in Mysore, the total number of State Financial Corporations came to 13 during the year. Three State Financial Corporations raised additional resources amounting to a little over Rs. 2.50 crores through the issue of bonds. In some of the States, the Corporations have been appointed as agents of the State Governments for routing the concessional finance provided by Government to small-scale industries. Such agency arrangements are at present in operation in the States of Uttar Pradesh, Andhra Pradesh, Bombay and Punjab. Similar arrangements are being made by the Government of Bihar. In terms of Section 37A of the State Financial Corporations Act 1951, the Reserve Bank has so far inspected nine Corporations.

State Financial Corporations

44. The Pilot scheme of the State Bank of India for the co-ordinated provision of credit facilities to small-scale industries, initiated in April 1956, was extended to all branches of the bank with effect from January 1, 1959. At the same time there is provision for the more intensive operation of the scheme at 36 selected centres. As at the end of June 1959, the State Bank had assisted 812 units at the intensive centres and 167 units at other centres, the total of the limits sanctioned (in force) and outstanding being respectively Rs. 262.06 lakhs and

Credit Facilities to Small-scale Industries

Rs. 106.22 lakhs at the intensive centres and Rs. 40.73 lakhs and Rs. 19.81 lakhs at other centres. The State Bank of India also entered into agency arrangements with the Bombay, West Bengal and Uttar Pradesh Financial Corporations whereby it would act as the agent of these Corporations in connection with the provision of loans to small and medium-scale industries at centres where the Corporations have no branches.

45. In pursuance of the recommendations of an informal meeting convened by the Reserve Bank on September 30, 1958 to consider certain issues relating to formulation of schemes of rural industrialisation, a working group consisting of representatives of the Government of Bombay and the Reserve Bank of India has been set up by the Government of Bombay for the purpose of initiating such schemes on a pilot basis in selected areas in the Bombay State.

46. The Industrial Credit and Investment Corporation of India Ltd. expanded its activities further and disbursed, for the first time during 1958, loans in foreign currencies. Total financial assistance which the Corporation had agreed to make available since its inception in 1955 upto the end of 1958 amounted to Rs. 13.37 crores as compared to Rs. 11.65 crores by the end of 1957 and Rs. 6.01 crores by the end of 1956. In view of the increased demands from industries for assistance, the Corporation has further augmented its resources through obtaining, in May 1959, an allotment of Rs. 10 crores as loan out of the new P. L. 480 funds and a further loan of $10 million from the World Bank in July 1959.

47. The Refinance Corporation, which was registered on June, 5, 1958 (*vide* last year's Report), started receiving applications only from September 1958, the initial two months or so being taken up with essential preliminaries including the issue of share capital, settling the procedure for the provision of refinance to member banks and entering into agreement with the Government of India for obtaining loans from the U.S. counterpart funds. The current resources of the Corporation amounted to Rs. 7.50 crores comprising its paid-up capital of Rs. 2.50 crores and a loan of Rs. 5 crores granted by the Central Government. Upto June 30, 1959, the Corporation had received 14 applications for refinance from 5 member banks for a total sum of Rs. 315 lakhs, the industries concerned being ferro-manganese, cotton textiles, cement, pharmaceuticals, pharmaceutical chemi-

cals, acids and fertilisers, automobile ancillaries, electrical manufacturing and engineering. Of these, 13 applications for an amount aggregating Rs. 304 lakhs, representing 98 per cent of the amount applied for (viz. Rs. 309 lakhs) were sanctioned. The remaining application for a sum of Rs. 6 lakhs was under consideration. Out of the sanctioned amount, a sum of Rs. 50 lakhs was disbursed to 2 member banks in respect of applications from the ferro-manganese industry.

Co-operative Policy

48. In recent years, few aspects of the working of the Reserve Bank have been so striking as its role in the sphere of rural finance. The activities of the Bank in this regard have been expanding markedly particularly since the Rural Credit Survey Committee submitted its Report in December 1954. In brief, the Committee had recommended the setting up of an integrated rural credit structure based on three fundamental principles, namely, State partnership at different levels, full co-ordination between credit and other economic activities, especially marketing and processing, and administration through adequately trained and efficient personnel, responsive to the needs of the rural population. The Reserve Bank was assigned a crucial role in this scheme of integrated credit. In pursuance of the above recommendations, which found general support, the Reserve Bank has been playing an active and constructive role in the sphere of rural credit and co-operation. The magnitude of the Bank's accommodation to the co-operative sector has risen substantially, the outstanding short-term advances rising from Rs. 8.57 crores at the end of June 1954 to Rs. 56.27 crores at the end of June 1959. The Bank has played an important part in the formulation of schemes for the reorganisation of the co-operative credit structure in different States. Further, the Bank has been spending much money and effort on the training of co-operative personnel on the ground that this is one of the most effective ways of ensuring the success of its credit programme.

49. Mention may be made here of some of the developments connected with the resolution on co-operative policy passed by the National Development Council at its meeting held in New Delhi in November 1958. The resolution emphasized that "for the development of co-operation as a people's move ment, it was essential that co-operatives should be organised on the basis of the village community as the primary unit, and that

responsibility and initiative for social and economic develop ment at the village level should be placed fully on the village co-operative and the village panchayat." The Council recommended that in the light of this general approach, the State Governments should review their programmes of co-operative development and formulate fresh programmes to be implemented during the next two years. Subsequently, a Working Group was set up by the Government of India with the representatives of the concerned Ministries, the Planning Commission, the Reserve Bank and the State Bank as members, to recommend the administrative and organisational arrangements necessary for the implementation of the resolution of the National Development Council. The Working Group has submitted its report and, on the basis of its recommendations, certain policy decisions have been communicated by the Government of India to State Governments. One of the more important decisions is that, as a general rule, the area of operation of the primary credit society should be one village, though, where the village is very small, two or more may be combined, so that the total population covered does not exceed about 1,000. This represents a material departure from the policies underlying the Second Five-Year Plan. In particular, the Plan provided for the promotion of a certain number of economically viable co-operative credit societies at the primary level, alongside various schemes for strengthening the smaller societies as well as the co-operative structure generally including marketing, processing and storage. Further, in part reversal of previous policy, Government have decided that "there should be no State participation in the share capital of village societies," i.e., at the primary level as distinguished from higher levels such as apex and central banks. To the extent that these decisions may be regarded as now holding the field — though it does not seem that any finality has yet been reached — the question which arises is whether the pace of expansion of agricultural credit through the co-operative system can remain the same as in the last few years, since clearly the degree of viability of the primary unit and the extent of its owned funds are very important considerations from the point of view of the lending institutions. Further discussions are taking place and it is hoped that satisfactory solutions will be found for enabling the co-operative credit structure, with the help as far as appropriate of the Reserve Bank, to play its due part in the provision of short-term and other credit for agricultural production and marketing. In particular, if the Reserve Bank's role in this context is to continue to be as significant and progressive as at present, it will be necessary to ensure that loans are in fact utilised for production, fully recovered and promptly paid back.

50. Turning to the operations of the Bank during the year, loans amounting to Rs. 5.92 crores were sanctioned from the National Agricultural Credit (Long-term Operations) Fund of the Reserve Bank to 13 State Governments to enable them to contribute to the share capital of co-operative credit institutions, of which Rs. 5.74 crores were availed of by the Governments. The amounts to the credit of the National Agricultural Credit (Long-term Operations) Fund and National Agricultural Credit (Stabilisation) Fund as on June 30, 1959 stood at Rs. 30 crores and Rs. 4 crores respectively, after the fourth annual contributions of Rs. 5 crores and Rs. 1 crore respectively were made to them.

51. The National Co-operative Development and Warehousing Board, set up in 1956 in terms of the Agricultural Produce (Development and Warehousing) Corporations Act, 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 established a warehouse at Kozhikode (Kerala) and a branch warehouse at Jangaon, under the Warangal warehouse, bringing the total number of warehouses established by it to eleven. Warehousing Corporations have been established in all the States in India (excluding Jammu and Kashmir) and according to provisional data warehouses have been opened by these Croporations at 43 centres upto the end of May 1959. By a circular letter dated December 26, 1958 the Reserve Bank exempted advances by scheduled banks against warehouse receipts issued by warehouses of the States Warehousing Corporations from the purview of its directives restricting advances against foodgrains. Advances against the pledge of warehouse receipts of the Central and State Warehousing Corporations were also exempted from the directive issued in February 1959 restricting advances against groundnuts.

52. In order to discuss the general progress of warehousing and other related issues of credit and marketing, two conferences

of warehousemen and Chairmen of certain State Warehousing Corporations were convened by the Central Warehousing Corporation at Nagpur and Hyderabad in September 1958 and March 1959 respectively. Ways and means of ensuring quick credit facilities from banks against warehouse receipts were also considered at these conferences.

53. The Reserve Bank's Standing Advisory Committee on Agricultural Credit met four times during the year, some of the important items discussed at these meetings being those relating to (a) the arrangements for supervision in Bombay, Kerala, Mysore, West Bengal, Punjab, Rajasthan and Assam, (b) rural debentures, (c) reorganisation of and assistance to small societies and (d) co-operative policy.

54. With a view to examining the pattern of the present sources and use of funds by urban co-operative banks and their working, a study covering a sample of 100 urban banks spread over 10 States and one Union territory was undertaken jointly by three Departments of the Reserve Bank, namely, the Agricultural Credit Department, the Economic Department and the Department of Statistics. The field work was completed by the middle of March 1959 and the report is under preparation. Reference was made in the last year's Report to the field studies of the credit needs of the coir industry in Kerala and the leather industry in Agra, which the Reserve Bank undertook in pursuance of an arrangement reached with the Government of India. During the year, the Bank undertook similar studies in respect of the leather industry in Madras and the fishery industry in Bombay, Kerala and Madras. The reports on these industries are under preparation.

Financial Accommodation to Co-operative Banks

55. During the year, there was a further increase in the volume of finance provided by the Reserve Bank to state co-operative banks for financing seasonal agricultural operations and marketing of crops. Eighteen state co-operative banks were sanctioned credit limits aggregating Rs. 65.43 crores at the concessional rate of 2 per cent below the Bank Rate, as compared with an amount of Rs. 48.24 crores sanctioned to 16 state co-operative banks during 1957-58. In addition, credit limits aggregating Rs. 3.06 crores sanctioned in the preceding year to a state co-operative bank were also operative for the year under review. At the end of the year,

the outstandings of the loans from the Reserve Bank of India to state co-operative banks for financing seasonal agricultural operations and marketing of crops stood at Rs. 56.27 crores as compared to Rs. 40.47 crores at the end of 1957-58 and Rs. 23.32 crores at the end of 1956-57. Also, a credit limit of Rs. 2.00 crores was sanctioned to the Bombay State Co-operative Bank under Section 17(4)(c), read with section 17 (2) (b) of the Reserve Bank of India Act, at the Bank Rate for meeting the needs of working capital of six co-operative sugar factories in the State. The State Co-operative Bank drew only a sum of Rs. 60 laths for financing two sugar co-operative factories. The loans were fully repaid during the year. 9 state co-operative banks were sanctioned, at the concessional rate of 2 per cent below the Bank Rate, medium-term loans out of the National Agricultural Credit (Long-term Operations) Fund, amounting to Rs. 4.52 crores as compared with Rs. 7.72 crores sanctioned to 12 state co-operative banks in 1957-58. From the same Fund, the Kerala Co-operative Central Land Mortgage Bank was sanctioned for one year a loan of Rs. 16.47 lakhs at Bank Rate against the guarantee of the State Government to enable the bank to pay off the debenture holders of the former Travancore Credit Bank (under liquidation) whose assets and liabilities are being taken over by the Kerala Co-operative Central Land Mortgage Bank.

56. The Reserve Bank continued to subscribe to the debentures floated by the central land mortgage banks, besides advising them on the terms for such floatation. During the year, 5 central land mortgage banks floated debentures amounting to Rs. 3.13 crores and varying in period of maturity from 8 to 20 years. The Bank subscribed to the extent of Rs. 1.69 lakhs in the case of the debentures of the Orissa Provincial Co-operative Land Mortgage Bank to make up the short-fali in public subscription.

57. Reference was made in the last year's Report to a scheme of rural debentures formulated by the Bank as a means of mobilising rural savings and the undertaking given by the Bank to subscribe to the shortfall in the subscriptions upto two-thirds of an issue. During the year the Reserve Bank made up the shortfall in public subscription to the extent of about Rs. 24 lakhs and Rs. 3 lakhs, respectively, in the case of two issues for Rs. 50 lakhs and Rs. 5 lakhs made in 1957-58 by the Saurashtra and Orissa Central Co-operative Land Mortgage Ranks.

58. The extent of assistance to be provided by the Reserve Bank in respect of rural debentures for 1958-59 was considered by the Standing Advisory Committee on Agricultural Credit in July 1958 and, in pursuance of the recommendations made by the Committee, a meeting of the representatives of the central land mortgage banks and some Registrars was convened by the Reserve Banks in August 1958 to find a satisfactory solution to the various procedural and other problems arising in this connection. The meeting recommended that land mortgage banks should be allowed to float rural debentures in two sets — one for 7 years to be offered to the public and the other for 15 years to be taken up, by the Reserve Bank. The contribution from the Reserve Bank was to be slightly more than the subscriptions received from the public, the proportion being 8.7. The Reserve Bank accepted this recommendation and also agreed to take up its share of debentures at par with interest at 4 per cent per annum. The central land mortgage banks of Andhra, Madras, Mysore and Saurashtra floated rural debentures for Rs. 35 lakhs, Rs. 20 lakhs, Rs. 5 lakhs and Rs. 30 lakhs respectively. The Reserve Bank subscribed to the extent of Rs. 18.50 lakhs to the rural debentures issued by the Andhra Co-operative Central Land Mortgage Bank.

59. During the year, credit limits aggregating Rs. 2.79 crores were sanctioned to 12 state co-operative banks under Section 17(2)(bb) or 4(c) of the Reserve Bank of India Act at 1½ per cent below the Bank Rate for financing the production and marketing activities of Weavers' Co-onerative Societies.

60. Credit limits aggregating Rs. 0.90 crore were sanctioned to 2 co-operative banks under Section 17(2) (a) or 4 (c) of the Reserve Bank Act, at the Bank Rate, for financing ***bona fide*** commercial or trade transactions.

Sapervision and Regulation of Banks

Inspection and Licensing of Commercial Banks

61. The strengthening of the banking system through supervision and regulation of commercial and co-operative banks continued to receive the closest attention of the Reserve Bank. In accordance with the policy of stepping up the pace of inspections of commercial banks, 66 scheduled and 251 non-scheduled banks were inspected during the year as compared to 46 scheduled banks and 122 non-scheduled banks in the previous year. Of these, excepting two banks

one of which was inspected under Section 45Q of the Banking Companies Act and the other with its own consent, all the others were inspected under Section 35 of the Banking Companies Act, 1949. After examining the comments of the banks concerned on the inspection reports, monthly progress reports in respect of the rectification of defects pointed out to them were called for from 171 banks while 144 banks were asked to submit quarterly reports in this regard. Wherever necessary, representatives of the banks concerned were also called for informal discussions with a view to bringing to their attention the more important defects in the working of the institutions concerned and impressing upon them the necessity of taking expeditious steps for improving their affairs. In cases where the findings of the inspection called for a stricter control over the affairs of the banks concerned, suitable conditions/directions were issued to them for compliance ; at the end of the year, there were 44 banks (18 scheduled and 26 non-scheduled) working under such conditions/directions.

62. The total number of banks which held licences as, at the end of the year under review stood at 62 as against 57 a year earlier. The deposits of these 62 banks together with the deposits of the State Bank of India and 5 State-associated banks which do not require a licence account for about 94 per cent of the total deposits of all scheduled and non-scheduled banks in India. Licences were refused to 12 banks during the year, bringing the total number of banks to which licences have been so far refused to 129.

63. A reference was made in the last year's Report to the exemptions, from certain statutory obligations, given to banks.

Exemptions

The permission granted to banking companies incorporated in and confining their activities to the former Travancore-Cochin State, to maintain by way of eligible assets a smaller proportion of their demand and time liabilities, was further extended upto March 1959, but the percentage of eligible assets to be maintained by these banks was raised from 15 to $17\frac{1}{2}$ per cent as against 20 per cent required under Section 24 of the Banking Companies Act. The exemption, which expired on March 31, 1959, was however, not renewed as it appeared that a majority of the banks concerned were in a position to comply with the requirements of the said Section. The exemption granted to all banking companies from certain provisions of Section 24 of the Banking

Companies Act 1949, enabling them to exclude from their liabilities their borrowings from the State Bank of India and State Bank of Hyderabad and to treat as unencumbered, the approved securities lodged with other banking companies to the extent they are not utilised for advances or other credit arrangements, was extended by a further period of one year from June 9, 1959.

Inspection of Co-operative Banks

64. The inspection of co-operative banks on a voluntary basis was continued during the year under review. During the year, 178 banks were inspected as against 240 last year, the shortfall being mainly owing to the special *ad* hoc inspections conducted last year in connection with applications for loans from State Governments for contributions to the shares of co-operative credit institutions and the pre-occupation of most of the regional offices this year with the survey of co-operative urban banks. The total number of inspections carried out by the Department upto June 1959 was 618. The number of inspections was 54 in respect of state co-operative banks, 545 of central co-operative banks, 7 of industrial co-operative banks, 3 of sugar factories, 4 of central co-operative land mortgage banks, 2 of State handloom weavers societies, 1 of a State marketing society and 2 of miscellaneous societies.

65. Four regional offices of the Agricultural Credit Department were opened at Indore, Patna, Lucknow and Bangalore, thus bringing the total number of regional offices to 8.

&&mm Facilities

66. There were no major changes during the year under review in the scheme of remittance facilities. Following the recommendation of the Rural Banking Enquiry Committee, the Government of India had at the instance of the Reserve Bank, asked the State Governments to consider raising the limits of, drawings at or on treasury agencies in order to impart greater mobility to the movement of funds from one centre to another. Ten States agreed to raise the limits of drawings at or on sub-treasuries and treasuries from Rs. 5,000 and Rs. 25,000 respectively to Rs. 10,000 and Rs. 50,000. The State Bank of India on its own accord continued to grant free remittance facilities to central and apex co-operative banks once a week for remitting funds from their head quarters to up-country branches particularly in rural areas, in addition to the remittance facilities provided by the Reserve Bank. The other two agent banks

of the Reserve Bank namely the State Bank of Hyderabad and the Bank of Mysore Ltd. also agreed to provide similar facilities to the co-operative institutions in the areas served b them. Four banks, consequent on their inclusion in the Second Schedule to the Reserve Bank of India Act, became entitled to remittance facilities, while three banks, following their exclusion from the Second Schedule, ceased to be entitled to remittance facilities. Three non-scheduled banks were included in the approved list for purposes of remittance facilities, while seven non-scheduled banks were excluded.

Miscellaneous Matters relating to Banking

67. During the year under review, 13 commercial banks — one in Bihar, four in Kerala, two in Madras and one each in Rajasthan and Tripura and two each in Uttar Pradesh and West Bengal went into liquidation. Of these, 5 were ordered to be wound up by the Courts and the rest went into voluntary liquidation. The total deposits of the thirteen banks which went into liquidation amounted to Rs. 1.15 crores, representing hardly 0.1 per cent of the total deposits of scheduled and non-scheduled banks in India.

68. Three banks applied for inclusion in the Second Schedule to the Reserve Bank of India Act during the year. Two banks, which had applied in the previous year for inclusion and one out of the above-mentioned three banks were included in the Second Schedule after regular inspection ; the application of one bank is under consideration. During the year, one bank was excluded from the Second Schedule consequent on its amalgamation with another bank.

69. The number of offices of scheduled banks rose during the year by 346 to 3801. Of the new offices opened, 46 were on account of banks newly included in the Second Schedule. 82 of the new offices were opened during the year at places not formerly served by commercial banks.

Education and Training for Commercial Banks and Co-operatives

70. The Bankers' Training College which was started in September 1954 under the auspices of the Reserve Bank, for imparting practical training in banking to supervisory staff of commercial banks in the country, has so far completed 24 courses of training in which 577 candidates have been trained. In view of the State Bank's rapid expansion programme and the need for training its junior officers for higher posts, the total number of can-

didates admitted to each course was raised from 24 to 28 with effect from the 22nd course.

71. The scheme of training of co-operative personnel made further progress during the year. In the various courses conducted by the Central Committee for Co-operative Training at its Regional and Block level Co-operative Officers' Training Centres, 83 senior officers, 215 intermediate officers, 607 block level co-operative officers, 232 officers, for co-operative marketing and 80 officers for land mortgage banking were trained during the year. In addition 4846 junior co-operative officers were trained in institutions which were run by the State Governments and were supervised, for purposes of grants-in-aid by the Central Committee. With a view to effecting qualitative improvement in training programmes, the study of extension of methods and business management was introduced in the curricula of the training courses.

Bifurcation of the Department of Research and Statistics

72. With the growing complexity of economic functions of the Government and the tasks of credit management in recent years, the scope of work in the Economic as well as in the Statistical wing of the Department of Research and Statistics has been expanding rapidly. From the point of view of efficiency and convenience of organisation, it was, therefore, considered desirable to constitute the two wings into separate Departments. The Department of Research and Statistics was accordingly split up, from May 1, 1959, into two Departments, namely the Economic Department and the Department of Statistics. Further, as the Bank is called upon to make a continuous study of the problems arising from the execution of one Plan and the preparation of other Plans, a new Division of Planning and Development was created in the Economic Department to devote itself to the study of such problems.

Accounts and Other Matters

73. During the year under review, the Bank's income after making statutory and other provisions amounted to Rs. 47.26 crores as compared to Rs. 37.09 crores in 1957-58, and expenditure, which included the expenses of administration and provision for sundry liabilities and contingencies to Rs. 7.26 crores, a rise of Rs. 16 lakhs. The net profit available for payment to Central Government in terms of Section 47 of the Reserve Bank of India Act, was Rs. 40 crores as compared to Rs. 30 crores in the previous year.

74. The increase in the profit as compared to last year is mainly due to the funding of *Ad Hoc* Treasury Bills for Rs. 300 crores into 4 per cent Loan 1973, which has been partly offset by shrinkage in the holdings of Rupee and Sterling Securities, lesser Ways and Means Advances to Governments and decline in the rate of discount on Sterling Treasury Bills. 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 National Agricultural Credit (Stabilisation) Fund out of the profit, raising the balance in the above Funds to Rs. 30 crores and Rs. 4 crores respectively.

75. Expenditure during the year rose by Rs. 16.59 lakhs mainly due to increase under the heads "Establishment" and "Remittance of Treasure", partly offset by less expenditure under heads "Security Printing, Cheque, Note Forms, etc." and "Agency Charges". The increase in expenditure under Establishment was mainly due to the opening of the Regional Offices of the Agricultural Credit Department at Bangalore, Patna, Indore and Lucknow and a temporary Sub-Office at Bahrain. The increase under 'Remittance of Treasure' was mainly on account of the cost of charters for flying special note remittances to the Persian Gulf and inward remittances of India notes returned from there during the last quarter of the year. The decrease under 'Agency Charges' is explained by larger amount having been paid to State Bank of India last year on account of arrears of commission at revised rates for years 1955-56 and 1956-57.

Auditors

76. 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(52)-BC/58 dated September 1, 1958 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Composition of Central Board

77. Shri Ram Nath relinquished office as Deputy Governor on the expiry of his term of appointment on July 8, 1959. On his retirement, two posts of Executive Directors have been created, and Shri C. S. Divekar and Dr. B. K. Madan have been appointed to these posts with effect from July 9, 1959.

78. The Board place on record their high appreciation of the services of Shri Ram Nath all through his connection

with the Reserve Bank of India and particularly as Deputy Governor since the year 1951.

79. The vacancies in the Central Board consequent on the resignation of Shri Bikkani Venkataratnam (referred to in the previous Report) and of Prof. Goraknath Sinha on his appointment as a member of the Railway Rates Tribunal were filled by the Central Government by the nomination with effect from September 16, 1958, of Shri G. Parameswaran Pillai and Col. B. H. Zaidi, in terms of Section 12(4) of the Reserve Bank of India Act.

80. Shri D. N. Mitra and Col. B. H. Zaidi retired as Directors of the Central Board of the Bank on the expiry of their term of office on January 14, 1959 and were renominated by the Union Government in terms of Section 8(1) (c) of the Reserve Bank of India Act.

81. The Union Government nominated with effect from July 8, 1958 Shri S. Jagannathan, I.C.S. to be a Director of the Central Board under Section 8(1) (d) of the Reserve Bank of India Act, vice Shri B. K. Nehru, I.C.S. and Shri S. Jagannathan continued to be a Director till September 10, 1958 when Shri A. K. Roy was nominated in his place.

Local Boards

82. Sir 0. T. Jenkins resigned his membership of the Eastern Area Local Board of the Bank with effect from January 1, 1959 and Mr. J. D. K. Brown was nominated by the Central Board in terms of Section 12(3) of the Reserve Bank of India Act as from May 27, 1959.

Meeting of the Central Boards and its Committees

83. Six meetings of the Central Board were held during the year, three in Bombay, two in New Delhi and one in Calcutta. The Committee of the Central Board held forty-nine meetings of which eight were in Calcutta, two in New Delhi and the rest in Bombay.

Bank's Premises

84. The construction of the Bank's New Office Building at Madras is expected to be completed before the end of 1959 and that of the Bankers' Training College in Bombay by October 1959. Two residential buildings were completed in Bombay and an additional building for the officers was taken in hand. The question of providing additional residential quarters to the staff in Bombay as well as other centres is engaging the Bank's attention.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1959

ISSUE DEPARTMENT

LIABILITIES	Rs. nP.	Rs. nP.	ASSETS	Rs. nP.	Rs. nP.
Notes held in the Banking Department	37,81,28,756 00		A. **Gold Coin** and **Bullion** :- (a) Held in India	117,76,02,749 97	
			(b) **Held outside India** ..	Nil	
Notes in circulation	1714,36,54,705 00		Foreign Securities	178,00,89,629 06	
			Total of A ..		295,76,92,379 03
			B. Rupee Coin ..		130,67,76,595 24
Total Notes issued		1752,17,83,461 00	Government of India Rupee Securities ..		1325,73,14,486 73
			Internal Bills of Exchange and other Commercial Paper ..		*Nil*
Total Liabilities		1752,17,83,461 00	Total Assets ..		1752,17,83,461 00

BANKING DEPARTMENT

LIABILITIES	Rs.	nP.	ASSETS	Rs.	nP.
Capital paid-up	5,00,00,000	00	Notes	37,81,28,756	00
Reserve Fund	80,00,00,000	00	Rupee coin :: :: :: :: ::	1,91,309	00
National Agricultural Credit (Long-term Operations) Fund	30,00,00,000	00	Subsidiary Coin	3,23,364	50
National Agricultural Credit (Stabilisation) Fund	4,00,00,000	00	Bills Purchased and Discounted :-		
			(a) Internal	Nil	
Deposits :—			(b) External	Nil	
(a) Government			(c) Government Treasury Bills	1,15,65,294	87
(1) Central Government	47,80,39,505	53	Balance held abroad*	13,45,30,877	85
(2) Other Governments	20,24,39,126	98	Loans and Advances to Governments ..	22,68,85,801	00
(b) Banks	98,14,71,205	39	Other Loans and Advances	69,15,12,800	53
(c) Others	159,85,89,989	24	Investments**	319,00,68,871	88
Bills Payable	20,88,41,398	34	Other Assets	14,17,98,718	71
Other Liabilities	11,56,24,568	86			
Total Liabilities	477,50,05,794	34	Total Assets	477,50,05,794	34

* Includes Cash & Short-term Securities.

** Contingent liability on partly paid shares Rs. 4,00,00,000.00.

N. D. NANGIA,
Chief Accountant.

Advances to Agricultural Bank

H. V. R. IENGAR,
Governor.

K. G. AMBEGAOKAR,
Deputy Governor.

B. VENKATAPPIAH,
Deputy Governor.

Dated *July 21, 1959.*

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED					
	June 30, 1959		June 30, 1958		June 30, 1957	
INCOME	**Rs.**	**nP.**	Rs.	**nP.**	Rs.	**nP.**
Interest, Discount, Exchange, Commission, etc.	**47,25,60,478**	53	**7,08,88,054**	01	**36,20,53,245**	96
EXPENDITURE						
Establishment	**3,78,09,386**	**14**	**3,42,60,182**	35	**3,18,61,124**	20
Directors' and Local Board **Members' fees and expenses**	**70,519**	**60**	85,653	**59**	80,363	57
Auditors' fees	**22,500**	**00**	22,500	00	22,500	00
Rent, Taxes, Insurance, **Lighting, etc.**	**19,29,808**	41	**16,71,817**	**66**	**16,62,476**	**82**
Law Charges	1-09,229	73	**18,575**	**35**	**30,372**	**36**
Postageand **Telegraph charges**	**3,24,117**	25	**3,12,871**	31	**2,58,915**	54
Remittanee of Treasure	**46,24,122**	47	**29,95,379**	26	**26,24,466**	**34**
Stationery, etc...	**8,12,072**	10	**7,42,616**	63	**5,96,263**	**60**
Security **Printing—(Cheque, Note Forms, etc.)**	**1,14,98,408**	34	**1,24,15,100**	72	**1,38,52,214**	94
Depreciation and Repairs to Bank property	**23,63,393**	19	**23,45,978**	74	**25,30,176**	28
Agency Charges	**1,00,28,088**	37	**1,37,32,851**	48	**66,08,858**	13
Contributions to staff and superannuation' funds:	**4,63,000**	00	29,000	00	36,000	00
Miscellaneous expenses	**24,83,111**	06	**22,46,271**	97	**18,75,644**	08
Net **available** balance	**40,00,22,721**	87	**0,00,09,254**	95	**30,00,13,870**	10
Total	**47,25,60,478**	53	**7,08,88,054**	01	**36,20,53,245**	96

PROFIT AND LOSS ACCOUNT—*Continued*

	FOR THE YEAR ENDED					
	June 30, 1959		June 30, 1958		June 30, 1957	
	Rs.	nP.	Rs.	nP.	Rs.	nP.
Surplus payable to the Central Government	40,00,22,721	87	30,00,09,254	95	30,00,13,870	10
Balance carried forward	*Nil*		*Nil*		*Nil*	
Total	40,00,22,721	87	30,00,09,254	95	30,00,13,870	10

RESERVE FUND ACCOUNT

By balance on June 30, 1959	80,00,00,000	00
By transfer from Profit and Loss Account .,	*Nil*	
Total	80,00,00,000	00

N. D. NANGIA,
Chief Accountant.

H. V. R. IENGAR,
Governor.

K. G. AMBEGAOKAR,
Deputy Governor.

B. VENKATAPPIAH,
Deputy Governor.

REPORT OF THE AUDITORS

TO THE PRBSIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of Indii, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1959.

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

Dated July 21, 1959.

EXAMINER PRESS BOMBAY