RESERVE BANK OF INDIA

Report of the Central Board of Directors

for the year ended June 30, 1960

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

AUGUST 1960

RESERVE BANK OF INDIA

REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

FOR THE YEAR ENDED JUNE 30, 1960

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

August 1960

CENTRAL BOARD OF DIRECTORS

(As on June 341960)

Governor	Shri H. V. R. Iengar
Deputy Governors	Shri B. Venkatappiah Shri M. V. Rangachari
Directors, Nominated under Section 8(1)(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(1)(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 L. K. Jha, I.C.S. Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs.

MEMBERS OF LOCAL BOARDS

(As on June 30, 1960)

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
Dr. Bimla Churn Law
Shri D. N. Mitra
Shri B. P. Singh Roy
Sir 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.

17*th August* 1960.
Sravana 26, 1882 ***(Saka)***

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 dooments :-

(1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1960 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's auditors ;

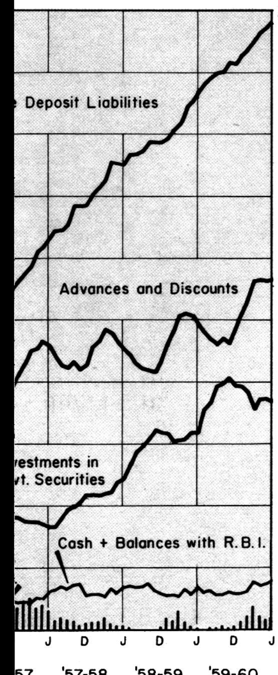
and

(2) Two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1960.

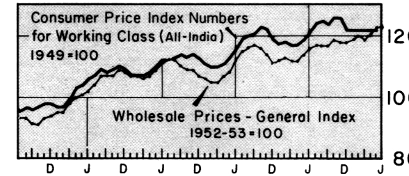
Yours faithfully,
H. V. R. IENGAR
Governor.

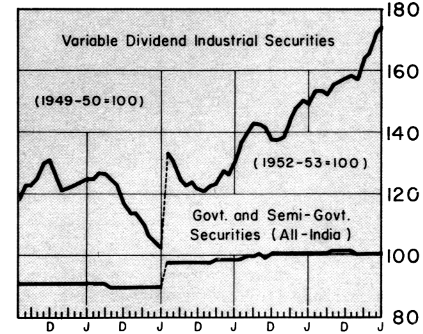
ELECTED
MIC INDICATORS

D BANK DATA

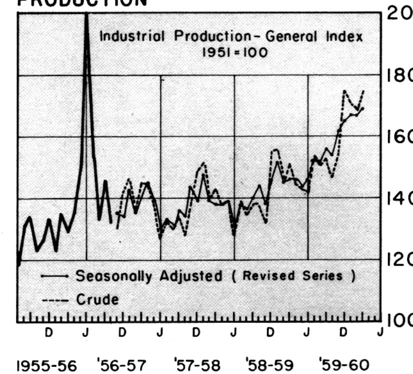


PRICES





PRODUCTION



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

For the year July 1, 1959—June 30, 1960

Developments in the Economy

General

A substantial increase in the rate of growth of industrial production, some decline in agricultural output, a modest increase in aggregate investment, a further and marked rise in the general price level, a rise in the rate of expansion of money supply and bank credit, an intensification of the stock market boom and a further, though small, fall in the foreign exchange reserves (which was accounted for by special payments to the I.M.F.) were the main features of the Indian economy during the year under review.

2. It is against this background that the Reserve Bank adopted further measures of credit restraint consistently with the policy of ensuring an adequate flow of credit for productive purposes, particularly to sectors which need special assistance. The Bank continued to operate, with suitable modifications, the existing selective controls in respect of foodgrains, sugar and groundnuts and brought within their purview all other oilseeds (except cotton seed). During the latter half of the year, resort was had, for the first time, to the instrument of variable reserve ratios, alongside other measures including a ban on direct financing by banks of *budla* transactions, imposition of minimum margins in respect of bank advances against ordinary shares and the prescription of a ceiling for clean advances. Action was also taken further to restrict banks' borrowings under the Bill Market Scheme. The Bank's open market operations continued to be employed during the year to siphon off the excess liquidity in the economy. Further progress was made during the year in regard to the expansion and strengthening of the institutional framework for the provision of industrial and agricultural finance as well as the expansion of commercial banking on sound lines.

3. Overall agricultural production, which had declined sharply during 1957-58, recorded a substantial rise of 14.3 per cent in 1958-59. The general index of agricultural production (base : 1949-50= 100) which had fallen from 123.6 in 1956-57 to 114.6 in 1957-58, rose to 131.0 in 1958-59. The foodgrains index increased by 18.7 per cent while the rise in the case of non-food-grains was comparatively small at 6.9 per cent. The production of foodgrains during 1958-59 reached a record level of 73.5 million tons, which represents a rise of 11 .O million tons over 1957-58 and 4.8 million tons over 1956-57. For 1959-60, however, overall agricultural production, according to available estimates, shows some decline, mainly under cotton and jute and partly under foodgrains.

Production Treads

4. The rate of growth of industrial production, which had slowed down in 1957 and 1958, recorded a marked rise during 1959. The average general index (base : 1951= 100) for 1959 worked out to 151.1 or an increase of 8.2 per cent as compared to 1.7 per cent in 1958 and 3.5 per cent in 1957. The figure for the first quarter of 1960 was 13.7 per cent higher than during the corresponding period of 1959. The improvement in industrial production in 1959 is attributable to a number of factors including larger supplies of imported raw materials, revival of domestic demand which enabled a fuller utilisation of existing capacity and the commencement of production by some of the new units.

5. Industry, however, is faced with the problem of rising raw material prices and the growing pressure for wage and salary increases which may seriously affect costs and thereby its competitive capacity in export markets. The scope for rationalisation and modernisation of industry needs to be thoroughly explored and implemented. It is also important to ensure that wage increases are commensurate with productivity and that, at the same time, the cost of living is held down.

Commodity Prices

6. The price situation continued to cause concern during the year under review. The general index of wholesale prices (base : 1952-53=100) recorded an almost continuous rise from 115.6 in the last week of June 1959 to touch a peak of 120.0 for the week ended October 10, 1959, thereby surpassing the previous peak of 116.9 touched during the week ended September 13, 1958. This was followed by a temporary decline, with the index coming

down to 117.5 on December 19, 1959 ; thereafter the index moved up again to 120.0 on February 13, 1960 and, after declining to 118.6 by the end of March, rose almost continuously to touch a new high of 123.5 for the week ended May 14, 1960 before closing for the year ended June at 122.9. Thus, over the year there was a net rise of 6.3 per cent as compared to a rise of 2.0 per cent in 1958-59. The average general index for the year was higher than that of the previous year by 4.5 per cent, as compared to a rise of 5.1 per cent in the previous year.

7. A feature of the price rise in 1959-60 was that, for the first time since 1951, 'industrial raw materials' and 'manufactures' have emerged as the most important contributory groups while the part played by 'food articles' was comparatively unimportant. Thus, while the indices of industrial raw materials and manufactures increased by 15.5 per cent and 9.8 per cent, respectively, as compared to a rise of 3.8 per cent and 1 .O per cent, respectively, in 1958-59, food articles, which had risen by 2.1 per cent in 1958-59, showed a rise of only 1.5 per cent in 1959-60. The rise in the 'industrial raw materials' group was largely under raw jute, groundnuts and raw cotton, whereas the increase in 'manufactures' was mainly under the textiles sub-group. The comparatively small rise in food articles, specially cereals, may be attributed to the record output of foodgrains in 1958-59 as well as larger imports of foodgrains at 4.22 million tons as compared to 3.70 million tons in the previous year. The rise in 'food articles' occurred mainly under tea, edible oils, sugar and cereals ; in the cereals sub-group, rice recorded a rise of 9.6 per cent in contrast to a decline of 7.1 per cent in 1958-59, while wheat recorded a decline of 4.5 per cent.

8. The all-India working class consumer price index (base : 1949=100) moved up from 122 in June 1959 to 126 by November; it declined to 122 in December and further to 121 in March 1960, but moved up to 123 by June 1960; the average for the year was 3.2 per cent higher than that for 1958-59.

Monetary Situation

9. During the year there was a rise in the rate of expansion in money supply and bank credit. Money supply with the public moved up by Rs. 172 crores or 6.8 per cent (to Rs. 2,702 crores) during the Bank's accounting year 1959-60, as compared to Rs. 151 crores or 6.4 per cent in 1958-59, the bulk of the rise occurring under currency with the public. The rise in bank credit

to Government, although considerably smaller than in the preceding year, continued to be the major expansionist factor, while the rise in bank credit (covering non-scheduled and State co-operative banks also) to the private sector was significantly larger than in 1958-59. Indicating mainly the pressure of demand for bank credit, the contraction in money supply during the 1959 slack season (May-October) was lower (at Rs. 111 crores) than in the 1958 slack season (Rs. 157 crores). The expansion in money supply during the 1959-60 busy season (November-April) was somewhat smaller (at Rs. 277 crores) than in the 1958-59 busy season (Rs. 291 crores), due mainly to a deficit in balance of payments (as measured by the variations in foreign assets of the Reserve Bank) in contrast to a moderate surplus in balance of payments in the preceding busy season.

10. Scheduled bank credit recorded a sharp expansion of Rs. 139 crores (from Rs. 985 crores to Rs. 1,124 crores), or by 14.1 pet cent as compared to a rise of Rs. 82 crores or 9.1 per cent in the previous accounting year, although the expansion in deposits (Rs. 227 crores) was somewhat lower than in 1958-59 (Rs. 234 crores). On the basis of annual average figures, the increase in bank credit during the accounting year was relatively much sharper than in the preceding year, the rise in 1959-60 being Rs. 98 crores as compared to Rs. 24 crores in 1958-59. The contraction in bank credit in the 1959 slack season (May-October) was considerably smaller (Rs. 79 crores) than in the 1958 slack season (Rs. 118 crores). The expansion in bank credit in the 1959-60 busy season (November-April) was also slightly larger (Rs. 189 crores) than the expansion of Rs. 182 crores in the 1958-59 busy season. Over the year, the credit-deposits ratio rose from 56.7 per cent to 57.2 per cent; these figures would be higher if P. L. 480 funds are excluded, being of the order of 70 per cent.

11. Secured advances accounted for the entire rise (Rs. 139 crores) in bank credit in 1959-60 as against 79 per cent (Rs. 65 crores) of the rise in bank credit in 1958-59. With the exception of 'industrial raw materials,' which recorded a decline, all the major groups recorded a larger increase than in 1958-59 ; in the case of the food articles group, the rise was wholly on account of sugar and *gur*, reflecting the substantial increase in sugar output in

Variations in Main Items of Scheduled Banks' Data

(*Crores of rupees*)

	Out-standing at end-June 1957	Variations during the Reserve Bank's accounting years			Out-standing at end-June 1960	Seasonal Variations			
		1957-58	1958-59	1959-60		Slack Season of 1958	Busy Season of 1958-59	Slack Season of 1959	Busy Season of 1959-60
A. LIABILITIES									
1. Demand liabilities	714	+ 18	+ 7	+ 34	772	— 70	+ 66	— 53	+ 70
2. Time liabilities	549	+223	+227	+194	1192	+134	+ 50	+160	+ 61
3. Aggregate deposit liabilities	1262	+240	+234	+227	1964	+ 64	+116	+106	+131
4. Borrowings from the Reserve Bank of India	62	— 47	— 12	+ 38	40	— 18	+ 25	— 13	+ 30
B. ASSETS									
1. Cash Reserves	122	+ 16	—	+ 17	156	+ 14	— 15	— 21	+ 30
(*a*) Cash on hand	44	—	+ 4	— 1	47	— 2	+ 4	— 5	+ 10
(*b*) Balances with the Reserve Bank of India	79	+ 17	— 5	+ 18	109	+ 16	— 18	— 16	+ 19
(i) Statutory minimum ..	47	+ 7	+ 5	+ 41	100	—	+ 4	+ 1	+ 20
(ii) Excess	31	+ 10	— 9	— 23	9	+ 16	— 22	— 17	— 1
2. Net balances with the Reserve Bank of India (B1(*b*)—A4)	17	+ 64	+ 8	— 19	69	+ 33	— 43	— 3	— 10
3. Investments in Government Securities.	333	+155	+149	+104	740	+175	— 3	+178	— 52
4. Bank Credit	918	— 15	+ 82	+139	1124	—118	+182	— 79	+189

*Advances of Scheduled Banks Against **Principal Types** of Security*

*(Amount in **crores** of rupees)*

	Absolute Variations during		**Percentage** Variations during		**Outstanding** as on
	1958-59	**1959-60**	**1958-59**	1959-60	**une** 24, 1960
1. Food Articles	**+ 1**	+ 26	**+ 1**	**+30**	112
Of which Sugar and Gur	**(— 8)**	**(+ 26)**	**(—15)**	**(+57)**	**(72)**
2. Industrial Raw Materials	**+12**	**—** 11	**+11**	- 9	111
3. Plantation Products	**— 1**	+ **9**	- 2	**+22**	51
4. Manufactures and Minerals	**+23**	+ 61	**+ 7**	**+22**	346
5. Other Securities	**+30**	**+ 54**	**+12**	**+19**	338
6. Total Secured Advances	**+65**	**+139**	**+ 9**	**+17**	958
7. Clean Advances	**+17**		**+12**		166
8. Total **Credit**	**+82**	**+139**	**+ 9**	**+14**	**1,124**

1959-60. Excluding sugar and *gur*, advances against other food articles in fact recorded a fractional decline as against a rise of Rs. 9 crores in 1958-59.

12. The rise of Rs. 227 crores (to Rs. 1,964 crores) in aggregate deposit liabilities during the accounting year was more or less the same as in 1958-59 (Rs. 234 crores). Demand liabilities recorded a larger rise, namely, Rs. 34 crores, as compared to Rs. 7 crores in 1958-59. A significant portion of the rise in time liabilities represented, as in the previous year, the accrual to the U.S. Government's balances in India of counterpart funds arising from P. L. 480 imports.* The gilt-edged portfolio of scheduled banks rose by Rs. 104 crores, which was smaller than the rise of Rs. 149 crores in 1958-59. Nevertheless, the investment-deposits ratio rose from 36.6 per cent to 37.7 per cent. The rather sharp rise in cash reserves of Rs. 17 crores, as against the decline of Rs. 0.4 crore last year, was the result of the raising of statutory reserve requirements. There has, however, been a progressive decline in the cash ratio of banks during the last two years, the average ratio falling from 8.8 per cent for the accounting year 1957-58 to 7.7 per cent for 1958-59 and further to 6.8 per cent for 1959-60. Borrowings from the Reserve Bank also recorded a sizeable increase of Rs. 38 crores in contrast to the decline of Rs. 12 crores in 1958-59. Total borrowings from the Reserve Bank at the end of June 1960 amounted to Rs. 40.25 crores. Of this, Rs 26.71 crores were against Government securities and Rs. 13.54 crores against usance bills ; the corresponding figures as at the end of the previous year were Rs. 1.22 crores and Rs. 1.45 crores, respectively. In view of the large increase in the borrowings from the Reserve Bank, the *net* balances of scheduled banks with the Reserve Bank (i.e. balances with the Reserve Bank *less* borrowings from the Reserve Bank) showed a decline of Rs. 19 crores to Rs. 69 crores over the year.

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*With effect from May 12. 1960. the P.L. 480 counterpart funds which till then were being d&o&d into the U.S. Government Account with the State Bank of India. New Delhi, are being deposited into a new account opened by the U.S. Government with the Reserve Bank's New Delhi Office. Arrangements have also been made by the U.S. Government for the transfer to the Reserve Bank of past accumulations of P.L. 480 funds with the State Bank of India in monthly instalments of Rs. 12 crores each, commencing from July 1960.

13. The short-term money market tended to rule generally easy during the first five months of the year, due mainly to the high rate of accrual of deposits. Later, with the progress of the busy season, stringent conditions emerged which continued through June. The inter-bank call money rate in Bombay declined from l-3.50 per cent in June 1959 to touch a low of 0.75-2.50 per cent in November 1959 but firmed up to 3.50-4.13 per cent by April 1960 and closed for the year at 3.50 per cent. In Calcutta, the inter-bank call rate touched a low of 0.75-3.75 per cent in August 1959 and after fluctuating both ways, closed for the year at a high range of 3.50-4.00 per cent. An event in the short-term money market was the reduction by ½ per cent made in the ceilings for rates on deposits (other than inter-bank deposits), fixed under the voluntary agreement entered into in October 1958 by major Indian and foreign banks. With effect from September 1, 1959, the maximum rate of interest payable on deposits at seven days' notice and term deposits under three months was lowered to 33 per cent and that for deposits of three months and more was lowered to 33 per cent.?

Government Finance

14. Owing mainly to substantial external assistance and improved tax receipts, the strain on Government finances has tended to ease in the last two years or so, despite continued rise in Plan outlay. This outlay rose sharply from Rs. 634 crores in 1956-57 to Rs. 882 crores in 1957-58 and further to Rs. 998 crores in 1958-59 and is estimated at Rs. 1,006 crores in 1959-60, but the overall budgetary deficit of the Centre and States has declined progressively from Rs. 496 crores in 1957-58 to Rs. 139 crores in 1958-59 and further to Rs. 113 crores in 1959-60. For 1960-61, the Plan outlay is estimated at Rs. 1,080 crores and the overall budgetary deficit at Rs. 160 crores.

15. Net market borrowings of Central and State Governments during 1959-60 (April-March) amounted to Rs. 175 crores as compared to Rs. 227 crores in 1958-59. Net absorption of Government securities by the public, i.e. excluding the Reserve Bank and Governments, at Rs. 143 crores was also smaller by about Rs. 50 crores than in 1958-59, but, in both the years, the investment of P. L. 480 counterpart funds contributed materially

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† Effective August 16, 1960, the maximum interest rate on deposits at seven days' notice has been further reduced to 3 per cent and that on term deposits under 3 months to 3¼ per cant.

to Government borrowings. Net borrowings of the Central Govemment in 1959-60 amounted to Rs. 107 crores as compared to Rs. 181 crores in 1958-59. Reference was made in the last year's Report to the two cash-cum-conversion Central Government loans floated in July 1959, total subscriptions to which amounted to Rs. 184 crores, of which Rs. 90 crores were on account of conversion. In October 1959, the Central Government created two further issues, namely, the 33 per cent Bonds 1969 and the 3¾ per cent Loan 1974 for Rs. 25 crores and Rs. 20 crores, respectively, both of which were initially taken up by the Reserve Bank of India for subsequent sale to the market. Also, Treasury bills amounting to Rs. 150 crores held by the Reserve Bank of India in the Issue Department were funded in December 1959 into further issues of 3¼ per cent Bonds 1962, 3½ per cent National Plan Bonds 1965 (Second Series), 33 per cent National Plan Bonds 1967 (Third Series), 3½ per cent Loan 1968 and 33 per cent Bonds 1969.

16. Ail State Governments except Jammu and Kashmir entered the market during 1959-60, for an aggregate borrowing of Rs. 63.5 crores including a further issue of Rs. 2 crores in January 1960 by the Madhya Pradesh Government. Most of the loans were over-subscribed, the total subscriptions amounting to Rs. 102.38 crores, of which Rs. 69 crores (including conversions amounting to Rs. 0.57 crore) were accepted. Net market borrowings of State Governments during 1959-60, taking into account cash repayments of Rs. 1 crore, amounted to Rs. 68 crores as compared to Rs. 46 crores in 1958-59. Sales of Central Government Treasury bills (including 'intermediates') to the public brought in only Rs. 0.7 crore.

17. Gross market borrowings of the Centre for 1960-61 are placed at Rs. 250 crores, including receipts from the Five-Year Interest-free Prize Bonds which have been on sale from April 1, 1960. Net market borrowing (taking into account cash repayments of Rs. 109 crores) is put at Rs. 141 crores. The Central Govemment floated on July 18, 1960, two new cash-cum-conversion loans for a total sum of Rs. 175 crores, namely the 33 per cent Bonds 1966 at Rs. 99.75 per cent and the 4 per cent Loan 1980 at Rs. 99.90 per cent. The 2¾ per cent Loan 1960, the 4 per cent Loan 1960-70 and the 2¼ per cent Hyderabad Loan 1955-60 were accepted for conversion into the new loans. The loans were fully subscribed, the total subscriptions amounting to Rs. 180.30 crores,

of which cash subscriptions constituted Rs. 106.05 crores. Twelve State Governments have announced their decision to issue on August 29, 1960, market loans aggregating Rs. 75 crores for 1960-61 ; net market borrowing, taking into account repayment of maturing loans of Rs. 13 crores, would amount to about Rs. 62 crores.

18. Total receipts of small savings in 1959-60 (April-March) amounted to Rs. 84 crores (provisional) or about Rs. 5½ crores larger than in 1958-59, but Rs. 1 crore smaller than the budget estimate. The budget estimate for 1960-61 is placed at Rs. 90 crores. In view of the importance of mobilising small savings, Government have been continually keeping under review the organisational and other measures for intensification of the small savings drive. Further steps were taken in this direction during the year including (i) offer of a new denomination of Annuity Certificates to facilitate investment by smaller investors, (ii) enactment of legislation with a view to providing the facility of nomination to depositors in Post Office Savings Bank and to holders of Post Office Savings Certificates, Ten-Year Treasury Savings Deposit Certificates, and Fifteen-Year Annuity Certificates, (iii) extension to most of the head and sub-post offices transacting savings bank work, of the facility of withdrawal by cheque, (iv) the decision by Government to pay 33 per cent simple interest per annum on Postal Savings Certificates and Treasury Savings Deposit Certificates retained after maturity for a period not exceeding five years, (v) the amendment of Public Debt Rules 1946 making the Ten-Year Treasury Savings Deposit Certificates transferable by deed, and (vi) the introduction of a Pay Roll Scheme permitting voluntary deductions from wages of employees in large establishments for investment in small savings. During the year, a new medium of saving was offered, namely, the Five-Year Interest-free Prize Bonds with effect from April 1, 1960. The response so far has been encouraging, the sales upto the end of June 1960 amounting to a little over Rs. 9 crores (provisional). It has since been decided to give 50 per cent of the collections from Prize Bonds within a State to the State concerned.

Capital Market

19. The capital market not only maintained its buoyant tone noticed since last year but also developed an unusual ebullience judging from the behaviour of share prices, the rise in turnover and the amount of new issues as well as the large premia on some of them even before allotment. While the prevailing conditions reflected

in part a growing optimism in regard to prospects of industries and a broadening of investment interest in shares, a part of the rise in share values was also due to unhealthy speculative activity reflecting excess liquidity in the economy. The upswing in share prices, noticed since January 1958, generally continued during the year under review. The Reserve Bank's index of variable dividend industrial securities (base : 1952-53=100), which rose from 151.0 at the end of June 1959 to 168.8 prior to the imposition of credit curbs in March 1960, dropped temporarily to 161.7 on March 26 but moved up thereafter to touch an all-time peak of 175.9 on June 4 and stood at 175.4 on June 25, 1960. Over the year the index showed a rise of 15.8 per cent on top of a rise of 13.4 per cent in the preceding year.

20. With a view to restraining speculation financed by bank credit, the Reserve Bank imposed, in March 1960, minimum margin requirements in respect of scheduled bank advances against shares and prohibited direct *budla* activity on the part of banks (see para 30). Some of the stock exchanges, viz., Bombay, Ahmedabad and Madras, also took action to tighten up their own margin system.

21. The gilt-edged market ruled generally firm till early November 1959, reflecting mainly the easy money conditions prevailing during this period. The loan flotations of the Central Government amounting to Rs. 175 crores in July 1959 and of the State Governments aggregating Rs. 61.5 crores in August 1959 were absorbed without strain. With the emergence in November of stringent conditions, the gilt-edged market became quiet and continued so for the rest of the year. The recent credit squeeze measures and, in particular, the impounding of additional deposits accruing to banks, have also contributed to the easing of the gilt-edged market. The Reserve Bank's index of prices of Government of India securities (base : 1952-53= 100) rose from 100.7 at the end of June 1959 to 101.6 by early November but subsequently tended to ease and stood at 100.9 by June 25, 1960. The trend of the Reserve Bank's open market operations continued to be one of net sales during most of the year, though the volume of such sales recorded a decline to Rs. 66 crores as compared to Rs. 100 crores in 1958-59 and Rs. 70 crores in 1957-58. As regards yields, the average yield for the year on both short-dated and long-dated loans showed rises of about 0.10 per cent and about 0.05 per cent, respectively, while that on medium-dated loans declined by about 0.05 per cent.

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Balance of Payments

22. The improvement in India's balance of payments position noticed last year was generally sustained during the year under review, with a loss in foreign exchange reserves* of only Rs. 30 crores, which, although somewhat larger than in 1958-59 (Rs. 15 crores), was appreciably smaller than the very heavy drafts of Rs. 235 crores in 1957-58 and Rs. 230 crores† in 1956-57 (July-June). Between July 1959 and December 1959, the foreign exchange reserves, in fact, rose from Rs. 356 crores to Rs. 388 crores but since then, however, they tended to decline, touching a low of Rs. 326 crores by June 30, 1960. But for the special payments during the year of Rs. 52 crores to the I.M.F. partly in gold on account of our increased subscription and partly in dollars for the repurchase of rupees held by that institution, the reserves would have shown a moderate gain of Rs. 22 crores.

23. The deficit on current account during the first nine months of the year, for which details are available, was Rs. 104 crores as compared to Rs. 218 crores in the corresponding period of the previous year, due mainly to a fall in imports (Rs. 79 crores) entirely on Government account, and partly to a rise in export earnings. The fall in imports affected all groups except raw materials which rose from Rs. 90 crores to Rs. 123 crores. The rise in raw material imports reflected the expanding character of maintenance imports required to sustain domestic production. Export earnings improved by Rs. 38 crores (to Rs. 487 crores) during the period, aided mainly by the economic recovery abroad as well as the abatement of Chinese competition in respect of cotton textiles. Among the exports which recorded noticeable rises were cotton manufactures, vegetable oils and oil-cakes, and tanned hides and skins.

24. A number of measures were taken during the year to further intensify the export promotion drive. Export incentive schemes on the lines of the Cotton Textile Export Incentive Scheme (referred to in the last year's Report), were extended to cover woollen goods, textile fabrics containing more than one fibre, and vanaspati, whereby exporters were granted import licences for raw materials and accessories required by them, upto a specified percentage of the f.o.b. value of their exports. These, as well as

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* Comprising (i) gold and foreign assets held by the Reserve Bank and (ii) Government balances held abroad.

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

the various schemes introduced earlier, were also modified to permit import of additional items, and a larger number of exporters was brought within their ambit. The quantitative restrictions on exports of silver ores and concentrates, woollen yarn, wool waste, pull-through cloth were abolished and those on certain non-essential vegetable oils, oilseeds and oil-cakes were suspended. Exporters of manganese ore, bicycles and parts, and certain engineering items were granted rebates on railway freight, and the tea industry was accorded concessions in respect of fertilisers and transport.

25. The volume of external assistance has been considerably stepped up following the meetings convened by the I.B.R.D. in August 1958 and March 1959 of five nations, namely, the U.K., U.S.A., Japan, Canada and West Germany, referred to in last year's Report. The total external aid available during the Second Plan period upto June 1960, including a carry-over of about Rs. 191 crores from the First Plan, amounted to Rs. 2,206 crores, out of which about Rs. 1,035 crores was estimated to have been utilised upto March 1960. The utilisation of aid during the nine months ended March 1960 (Rs. 216 crores) was lower than in the corresponding period of 1958-59 (Rs. 277 crores).

26. The I.B.R.D. sponsored the visit in February 1960 of three eminent bankers, Sir Oliver Franks, Mr. Hermann J. Abs and Mr. Allan Sproul. Their report recommended, among other things, that external assistance must consist substantially of grants or loans not based on strictly commercial terms. The Finance Minister's tour of European countries also contributed to the creation of a favourable climate for foreign aid. Among the significant developments in the field of external assistance were the conclusion of a Four-Year Agreement by the Government of India with the Government of the U.S.A. for import of 17 million tons of foodgrains under P. L. 480, a credit of $30 million by the Government of West Germany, a line of credit amounting to $89.2 million from the U.S. Development Loan Fund, and the announcement by the Government of the United Kingdom of a loan of £10 million. The investment climate for foreign investors would also appear to have improved judging by the fact that approvals granted for foreign investments in 1959 amounted to Rs. 33 crores (Rs. 19 crores exclusive of approvals merely involving transfer of existing non-resident investment from one unit to another) as against Rs. 13 crores each in 1957 and 1958. This has been due, in no small measure, to Governmental measures which included the conclusion of double taxation avoidance agree-

ments with capital-exporting countries like the U.S.A., West Germany and Japan, participation in the U.S. Government scheme for insurance cover against risks of expropriation, nationalisation, etc., of American investments in India and simplification of industrial licensing procedures, etc. Mention may also be made here of the conclusion of an Agreement on June 20, 1960, between the Governments of India and the U.S.A. for establishing an Indian Investment Centre with headquarters in New Delhi, with a view to promoting foreign private investment in India and providing a medium for collaboration of foreign and Indian business through provision of advice, information, etc.

Monetary and credit Policy

27. The foregoing analysis of the Indian economy during the year highlights the fact that the buttressing of selective controls by quantitative restrictions was warranted not only by the inherent limitations of selective controls but also by indications that the expansion of aggregate monetary demand has been one of the important inflationary factors at work. This called for the employment, for the first time, of the weapon of variation in the statutory reserve requirements, an instrument which is well adapted for use in the institutional and structural framework of the banking system in India. There was, however, no change in the lending rates of the Bank and, as in the previous year, open market operations were also continuously employed to absorb the excess reserves of the banking system. The ambit of the existing selective credit controls was further extended during the year to include all oilseeds (other than cotton seed) and advances against shares and clean (i.e., unsecured) advances. While there has thus been an enlargement of the sphere of operation of selective credit controls and their strengthening by other instruments, the Bank's policy has continued to be operated consistently with the requirements of a developing economy.

28. The effectiveness of monetary policy cannot be assessed precisely by reference to the behaviour of general and sectional price levels which are dependent upon a variety of other factors bearing both on aggregate and individual demand and supply position. Thus, to the extent that foodgrains stocks are self-financed or privately financed, the role of bank finance is comparatively negligible. However, even after taking into account the existence of a substantial non-monetised sector and a fairly large unorganised sector of the money market, monetary policy has a useful role to play in the maintenance of price stability.

29. The details of the credit restraint measures taken during the year may now be given. The controls on foodgrain advances were made more flexible during the year in keeping with the changes in Government programmes of procurement and formation of food zones. A directive was issued on July 10, 1959, under which the existing margin requirement of not less than 40 per cent in respect of all foodgrain advances was to continue but subject to a minimum of 25 per cent in regard to credit against paddy and rice to purchasing agents of the Government of Orissa and in respect of credit against wheat to storage delivery contractors operating on behalf of the Punjab Government. Under this directive, the average aggregate level of credit against foodgrains which a bank may maintain was also refixed (i) on a State-wise basis for major States and (ii) separately for (a) paddy and rice, *(b)* wheat and (c) other foodgrains. A further directive was issued on January 16, 1960, reclassifying bank offices into three groups, namely, offices in (1) Andhra Pradesh, (2) Madhya Pradesh, and (3) all other States and requiring the maintenance of credit against paddy and rice by offices in each group at a level not exceeding the permissible level for the corresponding months of 1958 or 1959 whichever was higher. Exemptions in respect of new offices were also liberalised somewhat. In December 1959, the control on advances against groundnuts was further tightened and was extended to cover all oilseeds except cotton seeds. The margin requirements on groundnuts were left unchanged but ceiling limits were fixed at 90 per cent of the average outstanding credit in the corresponding months of the previous three years, with additional limits related to unutilised portions of export quotas of H.P.S. groundnuts and groundnut oil. The control on other oilseeds (excluding cotton seed) was confined to a prescription of a minimum margin of 40 per cent of the value of the seeds. Vanaspati manufacturers, exporters of oilseeds and credit against warehouse receipts were exempted from the minimum margin requirements.

30. With a view to meeting the situation arising from the marked expansion in money supply and bank credit and their impact on the stock and commodity markets as well as on the general price level, the Reserve Bank announced, on March 11, 1960, a series of further credit restraint measures which, while tightening the existing selective credit controls, also included resort, for the first time, to the instrument of variable reserve ratios. These measures included (i) the imposition of a minimum margin of 50 per cent in respect of advances by scheduled banks against

ordinary shares, above an amount of Rs. 5,000, (ii) a ban on direct financing of *budla* transactions by scheduled banks through purchase of shares in their name for the current settlement and sale for the next settlement, (iii) fixation of a ceiling on clean (i.e., unsecured) advances so that the ratio of clean advances to total advances in any month was not to exceed the corresponding ratio in 1959 and (iv) the impounding, in the form of additional deposits with the Reserve Bank, of 25 per cent of the addition to the demand and time liabilities of scheduled banks, after March 11, 1960, over and above the deposits hitherto required, namely, 5 per cent of demand liabilities and 2 per cent of time liabilities. Interest was to be paid every quarter on these additional reserves at the same rate as the average rate of interest paid by the scheduled bank on its total deposits for the corresponding quarter, but not exceeding the Bank rate. These measures were further reinforced on May 5, 1960, when the Bank raised the quantum of additional deposits which scheduled banks are required to maintain with the Bank from 25 per cent to 50 per cent effective May 6, 1960. Under this notification, the interest payment to banks on additional deposits was to be made each half-year instead of each quarter; subsequently, on June 29, the Reserve Bank decided that with effect from July 1, 1960 the interest thus payable will be at ½ per cent above the average rate of interest paid for the half-year by the scheduled bank concerned on its total deposits, subject to a maximum of 4½ per cent. On July 2, 1960 the provisions of the notification issued on May 5, 1960, were partially modified to exclude inter-bank borrowings from total liabilities for calculation of *additional* reserves and to stipulate that no bank will be required to maintain additional reserves exceeding 50 per cent of the increase in liabilities since March 11, 1960, the latter provision being intended to provide relief to banks which experience a *decline* in deposits subsequent to May 6, of more than 50 per cent of the rise between March 11 and May 6.

31. As in the last few years, commercial banks were informally advised to restrain credit expansion generally and in particular to ensure a satisfactory reduction of credit in the slack season. On May 8, 1960, the Governor issued a circular calling upon banks to effect a reduction of Rs. 110 crores or slightly less than 10 per cent in bank credit in the 1960 slack season with due regard to credit requirements of the expanding productive sectors of the economy. The Bank also indicated to some of the bigger banks the broad order of contraction of credit which each of them could conveniently bring about.

32. Further, the facility for borrowing from the Bank under the Bill Market Scheme was restricted for the slack season. Having regard to the fact that in the 1959-60 season 12 banks had borrowed under the Bill Market Scheme and that their maximum outstanding borrowing was only Rs. 15 crores, as compared to the sanctioned limit of Rs. 54 crores, the Bank decided to confine these advances during June-September 1960 to only such banks as had availed themselves of the Scheme in the 1959-60 season and also to restrict the relative credit limit to each bank to the maximum amount of its borrowings during last season upto May 9, 1960.

33. It is early yet to assess the impact of these various credit restraints. The margin of 50 per cent imposed in respect of advances by banks against ordinary shares became effective on March 11, 1960 only in respect of new advances, while in respect of existing advances it became effective only (a) on April 11, 1960 in the case of parties other than members of recognised stock exchanges and (b) on June 11, 1960 in the case of members of recognised stock exchanges. Advances against shares which had risen continuously from Rs. 72.64 crores in August 1959 to Rs. 83.29 crores in March 1960, declined by Rs. 5 crores to Rs. 78 crores in the succeeding two months ; they rose again to Rs. 82.08 crores in June 1960 but by mid-July recorded a decline to Rs. 80.87 crores. The trend in banks' unsecured loans has been downward, the outstanding amount of these falling from Rs. 189 40 crores in March 1960 to Rs. 165.87 crores in June; as of mid-July there was a rise to Rs. 173.53 crores. The percentage of unsecured loans to total advances in mid-July 1960 was 15 as compared to 17 a year earlier.

34. While thus, in particular sectors the credit curbs seemed to have worked in the desired direction, the impact of the variation in reserves on total bank credit has so far been limited. Although, immediately following the raising of the reserve requirements in mid-March, the expansion of bank credit in the peak of the busy season was arrested, subsequently in the traditional slack season the rate of contraction has so far been very small. An important objective of the measure, viz., a reduction in the excess liquidity of the scheduled banks was achieved but its effect was largely neutralised by the changes in the other assets and liabilities, that is, by a smaller reduction in borrowing from the Reserve Bank than is usual during this period and also by much smaller investment in Government securities. Between March 18 and August 5, the aggregate rise in scheduled banks' total liabilities amounted to

Rs. 66 crores; as against the rise in total reserve requirements of Rs. 42 crores, the banks increased their balances with the Bank by Rs. 33 crores, the balance of Rs. 9 crores having been absorbed by a reduction in excess reserves to Rs. 10 crores. Simultaneously, their cash on hand was reduced by Rs. 19 crores. Thus, the free cash reserves of the scheduled banks (i.e., cash in hand plus excess reserves) declined by Rs. 29 crores. During the same period, the banks' borrowings from the Reserve Bank declined by Rs. 43 crores, but this was somewhat lower than the decline of Rs. 57 crores achieved in the corresponding period last year; also, the outstanding of such borrowing, on August 5, 1960, at Rs. 34 crores was about Rs. 30 crores higher than a year earlier. Moreover, the rise in investments in Government securities during this period was very small, being only Rs. 9 crores as compared to a rise of Rs. 100 crores in the corresponding period in the previous year. The lower rate of rise in scheduled banks' investments during this period was largely accounted for by a net *decline* in P.L. 480 deposits maintained with the State Bank, as against a sizeable rise in these deposits last year; it may be stated that the State Bank used to invest a large proportion of the accruals of P.L. 480 funds in Government securities. However, after making allowance for this factor there would have been net disinvestment by banks of Government securities in the current year. In the circumstances, although the liquidity position of the scheduled banks became tighter, the rate of contraction of credit has been smaller in the current slack season. Scheduled bank credit *increased* during the period March 18, 1960 to August 5, 1960 by Rs. 9 crores as against a decline of Rs. 43 crores and Rs. 72 crores, respectively, in the corresponding periods of last year and the year before last. This is to be explained by the fact that the contraction of bank credit in the current slack season upto August 5, 1960 has been of the order of only Rs. 6 crores as against Rs. 67 crores in the corresponding period of 1959. The contraction of credit against seasonal commodities has been the same as in the last season, and in fact should have been larger but for the lengthening of the crushing season of sugar, which is an important seasonal item of credit. On the other hand, in contrast to last busy season there has been a steep rise in credit against non-seasonal items this year, mainly on account of the substantial rise in the rate of growth of industrial output.

35. The commencement of either the busy or slack season does not move in a set pattern from year to year, nor may one expect the decline in the slack season to be spread over evenly

during the period. Even so, the rather slow contraction of credit in the 1960 slack season is a matter for concern and it is imperative that banks take energetic steps to bring about a satisfactory contraction so that they may be in a position to meet the requirements of the next busy season without undue strain. Banks must also reduce their access to the Reserve Bank, if the recent credit restraint measures are not to be nullified.

36. Monetary policy, despite its recognised limitations generally and especially in a semi-developed economy like ours with a substantial currency component of money supply, has a positive role to play in facilitating the attainment of growth with stability. The techniques of credit regulation, however, have to be modified to suit the changing outlook of the economic scene, bearing in mind the needs of a developing economy.

The Prospect

37. Fiscal and general economic policies are, in our context, even more crucial to the successful implementation of planned development. The Third Five-Year Plan, the draft outline of which has been published recently, calls for a significant increase of national effort to attain higher investment targets. A substantial increase in the rate of savings to national income (from 8 to 11 per cent) to match the increased rate of investment to national income (from 11 to 14 per cent) will be necessary. The Plan would, no doubt, depend vitally on the availability of a significantly larger volume of foreign assistance than in the Second Plan, especially in view of the comparatively low level of our foreign exchange reserves and the inadequacy of our foreign exchange earnings even to finance the level of maintenance imports. It is necessary to emphasise, however, the critical importance of securing much larger internal resources for successful implementation of a bigger Plan. This problem poses a challenge to the nation, especially as it is manifest that the volume of deficit financing has to be restricted ; the figure envisaged in the Plan is Rs. 550 crores as compared to the likely actual of Rs. 1,175 crores in the Second Plan. A bold investment plan requires an equally bold and determined savings effort which, in concrete terms, means sacrifice by the community through postponement and curtailment of consumption. The precise manner in which this sacrifice is brought forth is a matter for careful consideration but clearly it will involve a much larger tax effort as also larger investment in securities and savings instruments issued by Government as well as the private sector. The necessary corollary of this is economy and austerity

in both public and private spending. The stabilisation of the cost of living is also imperative both for domestic reasons as well as for ensuring a cost price structure which will enable exports to be maintained at a level necessary for the Plan. All this has wide implications for general economic policies which will require to be assiduously worked out.

38. The institutional machinery for maximum mobilisation and canalising of savings into productive channels also needs to be continually strengthened. The Reserve Bank is aware of the immensity and urgency of the problem. The Bank has initiated action in this sphere in the past, but further steps will be necessary to adapt the machinery to the larger tasks ahead.

Banking Legislation

39. In the last year's Report, mention was made of the introduction in Parliament of (1) the Banking Companies (Amendment) Bill, 1959, (2) the State Bank of India (Subsidiary Banks) Bill, 1959 and (3) the State Bank of India (Amendment) Bill, 1959. During the year, these Bills were passed with certain modifications.

The Banking Companies (Amendment) Act, 1959

40. The Banking Companies (Amendment) Bill 1959, received the assent of the President of India on September 5, 1959 and was brought into force on October 1, 1959. Under the amended Act, the Reserve Bank is empowered to remove from office the chairman or any director or manager or chief executive officer of a banking company if such a person is or has been found by any tribunal or other authority to have contravened the provisions of any law and the Reserve Bank is satisfied that the association of such a person with the banking company is undesirable. The Bank is also empowered to prohibit such a person from taking part in the management of any banking company for such period not exceeding five years as the Bank may think fit. A banking company may now pay dividends on its shares without writing off (a) the depreciation, if any, in the value of its investments in approved securities provided such depreciation has not been capitalised or otherwise accounted for as a loss, (*b*) the depreciation, if any, in the value of its investments in shares, debentures or bonds in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company and (c) the bad debts, if any,

in any case where adequate provision for such debts has been made to the satisfaction of the auditor of the banking company. Some degree of flexibility in regard to the maintenance and use of the reserve fund is also now introduced; until the amendment came into force, the reserve fund had to be maintained intact and could not be drawn upon even for the purposes for which it was originally intended. Provision has also been made for inspection by the Reserve Bank of the foreign branches of Indian banks as well as their subsidiaries formed for the purpose of carrying on banking business exclusively outside India. The Reserve Bank has been allowed to apply for the winding-up of a banking company under certain circumstances and the High Court is empowered to direct the winding-up of a banking company by the Court in a case where a company in voluntary liquidation is not in a position to pay its debts as they accrue or where the Court considers that the voluntary winding-up proceedings cannot be continued without detriment to the interests of the depositors.

State Bank of India (Subsidiary Banks) Act, 1959

41. The State Bank of India (Subsidiary Banks) Bill, 1959, which provides for the constitution of eight major State-associated banks as subsidiaries of the State Bank of India received the President's assent on September 10, 1959. In pursuance of the provisions of this Act, the Bank of Bikaner, the Bank of Indore, the Bank of Jaipur, the Bank of Mysore, the Travancore Bank, the Bank of Patiala, the State Bank of Hyderabad and the State Bank of Saurashtra, have been duly constituted as subsidiaries of the State Bank of India.

42. With the constitution of these subsidiaries, the branch expansion programme of the State Bank of India, which had hitherto been confined broadly to areas comprising the former Part A and Part C States, will be extended to the areas of the former Part B States by the opening of branches of the subsidiary banks so as to achieve an integrated banking and treasury system covering the whole of India.

43. Steps are being taken for entrusting the cash work of Government treasuries and other agency functions to the subsidiary banks as agents of the State Bank of India at centres in the respective areas of operation where they have or propose to have branches.

44. An agreement between the Reserve Bank of India and the State Bank of India for the performance of agency functions was concluded on March 16, 1960. The agreement has principally been modelled on the lines of the agreement between the Reserve Bank and the erstwhile Imperial Bank and incorporates the changes that were considered necessary in the light of the provisions relating to agency functions contained in the State Bank of India and the State Bank of India (Subsidiary Banks) Acts and the Reserve Bank of India Act, as amended.

The State Bank of India (Amendment) Act, 1959

45. The State Bank of India (Amendment) Bill, 1959, which received the President's assent on August 28, 1959, seeks to simplify the procedure in regard to the taking over of the business of any banking institution which the State Bank acquires through negotiations under Section 35 of the State Bank of India Act and also to facilitate the orderly winding-up of the banking institution whose business is so acquired by the State Bank.

The Reserve Bank of India (Amendment) Act, 1960

46. Mention may also be made here of the passing on April 30, 1960, of the Reserve Bank of India (Amendment) Act, 1960, which empowers the Reserve Bank to act as agent for the Central Government in guaranteeing the due performance, by any small-scale industrial concern approved by the Central Government, of its obligations to a bank or other financial institution in respect of loans and advances made to it by such bank or other financial institution and the making, as such agent, of payments in connection with such guarantee. The Amendment Act also authorises the Bank to extend the facility of medium-term loans (for periods not exceeding 18 months) to the State Financial Corporations and also to such other financial institutions as may be notified by the Central Government in this behalf, provided the total amount of loans thus granted to any one Corporation or financial institution does not, at any time, exceed 60 per cent of the paid-up share capital thereof.

Banking Development

47. The Reserve Bank continued to play a prominent part in the development of institutional credit for agriculture and

industry. In promoting such development it has also been associated with institutions, such as the State Bank of India, besides the whole of the co-operative credit structure.

State Bank of India

48. The State Bank of India opened 105 branches during the year, raising the total number since its constitution to 416, thus exceeding the target of 400 additional branches within the stipulated period of five years (July 1955 to June 1960). Of the 416 new branches, 340 are in rural and semi-urban areas, i.e., at places having a population of 30,000 or less.

Industrial Finance Corporation of India

49. During the year, loans and advances of the Industrial Finance Corporation of India recorded a further increase of Rs. 4.93 crores as compared to a rise of Rs. 4.61 crores in the previous year. The amount outstanding at the end of June 1960 was Rs. 38.28 crores. The Corporation approved applications for Rs. 7.87 crores for guaranteeing deferred payments in respect of imports of machinery and equipment and also underwrote a 7 per cent tax-free cumulative redeemable preference share issue for Rs. 50 lakhs, besides giving consent to underwrite to the extent of Rs. 35 lakhs, two other preference issues. The Corporation further augmented its resources during the year by Rs. 5.49 crores through the issue in October 1959 of 4 per cent bonds 1971 at an issue price of Rs. 99.75 per cent. The amount of bonds outstanding at the close of June 1960 aggregated Rs. 22.24 crores. The Corporation's outstanding borrowings from the Central Government amounted to Rs. 13.25 crores at the end of June 1960 as against Rs. 13 crores at the end of June 1959.

State Financial Corporations

50. Loans and advances of the State Financial Corporations recorded a rise of Rs. 2.52 crores as compared to Rs. 2.21 crores in 1958-59. During the year, two Corporations, namely, Assam and West Bengal, augmented their resources through the issue of bonds to the extent of Rs. 1.05 crores.

51. With the establishment, during the year, of two more Corporations, one in Jammu and Kashmir and the other in Gujarat, each of the 15 States in India has now its own Corporation. In terms of Section 37A of the State Financial Corporation Act,

1951, the Reserve Bank has completed the first round of inspections of all the State Financial Corporations except (1) the above-mentioned two which are still in the formative stage and (2) the Mysore Corporation which has only recently commenced loan operations. Five Corporations have also been inspected for the second time.

Credit Facilities to Small-scale Industries

52. Under the State Bank of India scheme for the co-ordinated provision of credit facilities to small-scale industries, which was initiated in April 1956 and extended to all its branches with effect from January 1, 1959, the number of units assisted and the limits sanctioned at all centres of the Bank rose from 979 and Rs. 303 lakhs as on June 30, 1959 to 1,963 and Rs. 583 lakhs as on June 30, 1960. The advances outstanding amounted to Rs. 245 lakhs as on June 30, 1960 as against Rs. 126 lakhs as on June 30, 1959. The small-scale industries assisted under the scheme are mainly located in 36 centres which have been selected for the purpose of intensive operation and these industries also account for the bulk of the amounts sanctioned and outstanding. During the year, the State Bank entered into agency arrangements with two State Financial Corporations, viz., those of Punjab and Andhra Pradesh, whereby the Bank 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.

53. A notable development in the sphere of financing of small-scale industries was the formulation by the Government of India in consultation with the Reserve Bank of India of a scheme for the guarantee of advances granted to small-scale industries with a view to providing a measure of protection to lending institutions against possible losses in respect of such advances. The Scheme, which has been drawn up in pursuance of one of the major recommendations made by the Seminar on Financing of Small-scale Industries in India held in July 1959 in Hyderabad, came into force from July 1, 1960 and will be reviewed after a period of two years. Its administration has been entrusted to the Reserve Bank which will give the guarantee as the agent of the Central Government. It will initially cover 22 approved districts and the guarantee facilities will be available to specified scheduled banks, State Financial Corporations and State Co-operative Banks and such other institutions as may be specified in this behalf. The Scheme will cover industrial units whose

investment of a capital nature as indicated in the Scheme does not exceed Rs. 5 lakhs and the guarantee facility may be availed of in respect of advances for working capital or for acquisition of fixed assets and equipment, the advances being repayable on demand or on the expiry of a fixed period not exceeding seven years. The charge for providing guarantee cover has been fixed at the low rate of one quarter of one per cent per annum on the maximum amount of advances as sanctioned.

54. The Industrial Credit and Investment Corporation of India expanded its activities further during the year under review. It approved, during 1959, applications for a total of Rs. 8.41 crores-the largest amount in any year so far. The total financial assistance sanctioned by the Corporation since its inception in 1955 to the end of 1959 amounted to Rs. 20.40 crores. Of this, over 50 per cent were in the form of loans and guarantees amounting to Rs. 10.24 crores, Rs. 8.30 crores were by way of underwriting of ordinary and preference shares and debentures and the balance of Rs. 1.86 crores in the form of direct subscription to ordinary and preference shares. Of the Rs. 10.24 crores in the form of loans and guarantees, the share of loans in foreign currency accounted for Rs. 6.74 crores or 66 per cent.

55. During the year, the Refinance Corporation for Industry sanctioned eight applications for Rs. 1.22 crores (including one application for Rs. 6 lakhs received prior to July 1959), as against an amount of Rs. 3.04 crores sanctioned in respect of 13 applications in the previous year. The industries receiving assistance included cables and wires, sugar, staple fibre yam, acids and fertilisers, chemicals and pharmaceuticals. Since its inception in June 1958 upto June 30, 1960, the Corporation received 21 applications for Rs. 4.31 crores from five member banks and the amount sanctioned was Rs. 4.26 crores. Out of the loans sanctioned, applications aggregating Rs. 21 lakhs were withdrawn by member banks, leaving a balance of Rs. 4.05 crores of which a sum of Rs. 1.36 crores was availed of up to the end of the year under report. With a view to enlarging its activities and making its operations more flexible, the Corporation has formulated, for consideration by the Government of India and the U.S. Technical Co-operation Mission, certain proposals which include (i) the extension of the refinancing facilities to a larger number of banks without requiring them to become shareholders in the Corporation, (ii) the extension of the facilities to a larger number of industries and (iii) the removal of the present requirement that

member banks should have a minimum spread of $1\frac{1}{2}$ per cent between the rate at which they borrow from the Corporation and the rate at which they lend, thereby giving the banks discretion to fix lending rate subject to the approval of the Corporation. In view of the difficult foreign exchange position the Corporation has also made arrangements with the International Finance Corporation, Washington, and the Commonwealth Development Finance Company Ltd., London, under which these institutions have agreed to consider proposals for loans in foreign currencies from industrial concerns which have obtained rupee finance from the Corporation. Similar arrangements have also been made with the Industrial Credit and Investment Corporation of India for granting loans in foreign currencies from the funds which are available to it from the World Bank.

Co-operative Developmental Policy

56. The main features of the schemes for co-operative development for 1960-61, drawn up by the various State Governments in consultation with the Government of India, the Planning Commission and the Reserve Bank, related, as in the previous years, to State participation in certain categories of co-operative institutions, revitalisation of small-sized credit societies, organisation of marketing and processing societies, construction of godowns and provision for the appointment of staff for co-operative departments and institutions.

57. Following one of the recommendations of the Conference of State Ministers of Co-operation held at Mysore in July 1959, the Government of India appointed a Committee on Co-operative Credit on September 5, 1959 to examine and make recommendations, among other things, in regard to (i) the measures necessary for increasing the borrowing power of primary credit societies so as to provide more effective credit for agricultural production plans and (ii) the desirability of State participation in the share capital of village societies. The Report of the Committee was submitted to the Government of India in May 1960 and is under examination. The Conference of State Ministers of Co-operation held at Srinagar from June 14 to 16, 1960, in which the Reserve Bank also participated, discussed, among other things, this Report and also the Report of the Working Group on Co-operative Farming and Co-operative Development under the Third Five-Year Plan. The conclusions of the Conference are under examination by the Government of India.

58. The National Co-operative Development and Warehousing Board, set up under the Agricultural Produce (Development and Warehousing) Corporation 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, etc. The Central Warehousing Corporation established warehouses at 16 centres during the year, bringing the total number of warehouses established so far by it to 27. The State Warehousing Corporations opened 105 warehouses during the year, the total number of such warehouses established so far being 157.

59. The Central Warehousing Corporation convened the Fourth All-India Conference of Warehousemen at Poona in September 1959 to review and assess the general progress of warehousing and allied matters including the simplification of procedures for grant of advances against warehouse receipts and co-ordination between warehouses and co-operative marketing societies. Reference was made in last year's Report to the exemption of advances against pledge of warehouse receipts of the Central and State Warehousing Corporations from the directives issued by the Reserve Bank restricting advances against foodgrains and groundnuts. Similar exemption was granted during the year under review in respect of advances against the pledge of warehouse receipts covering all oilseeds (other than cotton seed).

60. Turning to the operations of the Reserve Bank in the field of agricultural credit, loans amounting to Rs. 5.04 crores were sanctioned from the Bank's National Agricultural Credit (Long-term Operations) Fund to 13 State Governments to enable them to contribute to the share capital of co-operative credit institutions, of which 12 State Governments availed themselves of loans amounting to Rs. 4.93 crores. The total gross disbursements out of the above Fund since its inception in 1956 to June 30, 1960 (including loans to State Co-operative Banks and Central Land Mortgage Banks and the amount utilised for purchase of rural debentures, referred to elsewhere in the Report) amounted to Rs. 31.27 crores ; the total outstanding of these as on June 30, 1960 was Rs. 25.7 crores. The total amount transferred by the Bank to the credit of this Fund during the same period was Rs. 40 crores, including the transfer of Rs. 10 crores effected on June 30, 1960. As of the same date, the amount to the credit of

the Bank's National Agricultural Credit (Stabilisation) Fund stood at Rs. 5 crores ; so far, this Fund has not been drawn upon.

Financial Accommodation to Co-operative Banks

61. The volume of finance provided by the Reserve Bank to State co-operative banks for seasonal agricultural operations and marketing of crops showed a further rise during the year. Nineteen State co-operative banks were sanctioned credit limits amounting to Rs. 93.55 crores at the concessional rate of 2 per cent below the Bank rate as compared to Rs. 65.43 crores sanctioned to 18 State co-operative banks during the previous year. The outstandings of loans from the Reserve Bank of India to State co-operative banks for financing seasonal agricultural operations and marketing of crops stood at Rs. 78.19 crores at the end of 1959-60 as against Rs. 56.27 crores and Rs. 40.47 crores at the end of 1958-59 and 1957-58, respectively. During the year, seven State co-operative banks were sanctioned *medium-term* loans out of the National Agricultural Credit (Long-term Operations) Fund also, at the concessional rate of 2 per cent below Bank rate, for agricultural purposes, amounting to Rs. 4.50 crores as against Rs. 4.52 crores sanctioned to nine State co-operative banks in 1958-59. The outstandings of these loans stood at Rs. 6.71 crores as against Rs. 5.77 crores a year earlier.

62. The Reserve Bank of India continued to subscribe to the debentures floated by central land mortgage banks, besides giving advice in regard to the terms and timing of such floatation. During 1959-60, four central land mortgage banks floated ordinary debentures amounting to Rs. 2.85 crores and varying in period of maturity from 8 to 20 years. It was not necessary for the Reserve Bank to take up any of these debentures as the series were fully subscribed to from other sources. As regards rural debentures, it was stated in the last year's Report that the Reserve Bank undertook to make a contribution to rural debentures issued by the central land mortgage banks, which was to be slightly more than the subscriptions received from the public, the proportion being 8 : 7. These debentures were to be issued in two sets, one for 7 years to be offered to the public and the other for 15 years to be taken by the Reserve Bank. During 1959-60, the Reserve Bank agreed to take up its share of debentures at par with interest at 4 per cent per annum. The central land mortgage banks of Saurashtra, Madras, Orissa and Andhra issued rural debentures

of the total value of Rs. 70.75 lakhs and the Reserve Bank contributed Rs. 29.57 lakhs, in addition to a sum of Rs. 24.20 lakhs in respect of the rural debentures floated during the previous year.

63. During the year, credit limits aggregating Rs. 245.393 lakhs were sanctioned to 12 State co-operative banks under Section 17(2)(*bb*) or 4(c) of the Reserve Bank of India Act at the concessional rate of $1\frac{1}{2}$ per cent below the Bank rate for financing the production and marketing activities of weavers' co-operative societies.

64. Credit limits aggregating Rs. 45 .OO lakhs were sanctioned during the year under review to two State co-operative banks on behalf of apex weavers' societies under Section 17(2)(a) or (4)(c) of the Reserve Bank of India Act at the Bank rate for financing *bona* fide commercial or trade transactions.

65. The Reserve Bank's Standing Advisory Committee on Agricultural Credit met three times during the year, some of the important subjects discussed at these meetings being those relating to *(a)* important aspects of co-operative development in Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa and Uttar Pradesh, *(b)* policy regarding medium-term loans, (c) furnishing of audit reports by Central banks and *(d)* investment of reserve funds by co-operative institutions.

66. Reference was made in the previous year's Report to a field study of urban co-operative banks and their working undertaken by the Bank's Agricultural Credit Department in conjunction with the Economic and Statistics Departments. The preliminary draft of this Report was completed during the year in collaboration with the Bank's Economic and Statistics Departments. The reports on the field studies of the credit needs of the fishery industry in Bombay, Kerala, and Madras, which were undertaken by the Agricultural Credit Department of the Bank were submitted to the Government of India together with suggestions on the pattern of organisation of fishermen's co-operatives for transmission to the State Governments concerned. The reports on the field studies of the leather industry at Agra and Madras and of the coir industry in Kerala were also submitted to the Government of India.

Supervision and Regulation of Banks

Inspection and Supervision of Commercial Banks

67. The Reserve Bank continued to give close attention to the development of the banking system on sound lines through supervision and regulation of both commercial and co-operative banks. Seventy-one scheduled and 238 non-scheduled banks were inspected during the year. Of these, excepting two banks, one of which was inspected under Section 22 and the other under Section 45Q of the Banking Companies Act 1949, the remaining banks were all inspected under Section 35 of the Act. Besides, scrutinies of the affairs of six State-associated banks were undertaken in connection with their merger with the State Bank of India. Scrutinies of the affairs of three banks were also taken up in terms of Section 44A of the Banking Companies Act 1949 and of two banks under Section 44(1) of the Act.

68. During the year, periodical progress reports regarding the action taken by inspected banks for rectifying the defects pointed out to them in the Inspection Reports were called for from 212 banks. At the end of the year, as many as 295 banks were submitting such periodical progress reports on the basis of which further steps were taken to ensure speedy action. Also, wherever necessary, representatives of the banks concerned were called for informal discussions with a view to bringing to their attention important defects in the working of the institutions concerned and impressing upon them the necessity of taking appropriate steps for the improvement of their affairs. At the end of the year, there were 48 banks (20 scheduled and 28 non-scheduled) working under directions issued under Section 35A of the Banking Companies Act.

69. The total number of banks which held licences as at the end of the year was 66 as against 62 a year earlier. The deposits of these banks together with the deposits of the State Bank of India and its subsidiaries 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 five banks during the year bringing the total number of banks to which licences have so far been refused to 133.

Exemptions

70. The exemption granted to all banking companies from certain provisions of the Banking Companies Act 1949, which enabled them to exclude from their liabilities their borrowings from the State Bank of India and the State Bank of Hyderabad and to treat as unencumbered the approved securities lodged with other banking companies to the extent they are not utihsed for advances or other credit arrangements, has been placed on a permanent footing by the amendment of Section 24 by the Banking Companies (Amendment) Act, 1959 which came into force from October 1, 1959. In regard to the 18 banks exempted up to March 31, 1960 from Section 11 of the Banking Companies Act, 1949 (which prescribes minimum requirements in regard to paid-up capital and reserves) further exemption has been granted to 11 banks upto March 31, 1961 and to one bank upto September 30, 1960; and of the two banks exempted from Section 11 of the Act upto October 31, as a result of the reorganisation of States, one bank has been granted further exemption upto September 30, 1960.

Inspection of Co-operative Banks

71. Two hundred and fifty-six co-operative banks, two apex handloom weavers' societies and 144 large-sized credit societies were inspected during the year, bringing the total number of inspections carried out so far to 1,020. The number of inspections was 67 in respect of State co-operative banks, 782 of Central co-operative banks, 11 of industrial co-operative banks, 3 of sugar factories, 6 of central land mortgage banks, 4 of State handloom weavers' societies and 1 of the State marketing society and 146 miscellaneous societies.

Miscellaneous Matters Relating to Banking

72. No bank applied for inclusion in the Second Schedule to the Reserve Bank of India Act during the year under review, but the position in respect of three banks was considered for inclusion in course of inspection. Of these, two banks were included in the Second Schedule after a regular inspection and the case of the remaining bank is under consideration. During the year, one bank was excluded on its amalgamation with another bank. The total number of banks in the Second Schedule at the end of the accounting year was 95.

73. The total number of offices of scheduled banks rose during the year by 259 to 4,060. Of the new offices opened, 27 were on account of the banks newly included in the Second Schedule ; 87 of the new offices were opened during the year at places not formerly served by commercial banks.

74. Three schemes of amalgamations were sanctioned during the year under review in terms of Section 44A of the Banking Companies Act, 1949 and one scheme submitted by two non-scheduled banks was examined and the banks were asked to proceed with the usual formalities.

75. During the year under review, nine commercial banks, three in Madras, two in Mysore and one each in Rajasthan, Maharashtra, Uttar Pradesh and Kerala went into liquidation. Of these, four were ordered to be wound-up by the Courts and the rest went into voluntary liquidation. The total deposits of the nine banks which went into liquidation amounted to Rs. 2.24 crores, representing hardly 0.1 per cent of the total deposits of scheduled and non-scheduled banks in India.

76. According to a representation made to the Bank, five Indian banks functioning in Pakistan have been declared as evacuees in that country by the Custodian of Evacuee Property, Lahore. As this is a breach of the letter and spirit of the Indo-Pakistan Agreement the matter has been taken up, at the instance of the Bank, by the Government of India with the Government of Pakistan. Certain clauses in the Pakistan Displaced Persons (Compensation and Rehabilitation) (Amendment) Ordinance 1959 which rendered ineffective the provisions of paragraph 6(a) of the Agreed Decisions on the Indo-Pakistan Agreement were also brought to the notice of the Government of India for making suitable representation to the Government of Pakistan.

Education and Training

77. In keeping with its policy of organising and promoting the training and education of personnel for commercial banks and co-operative institutions, the Bank sponsored appropriate courses for different categories of personnel. The Bankers' Training College, which was founded in September 1954 under the auspices of the Reserve Bank, for imparting practical training in banking to the supervisory staff of commercial banks has so far conducted 28 courses in which 690 candidates have received training. The existing course at the College being designed for agents, managers and senior officers of commercial banks is an advanced course and the need has been felt for an intermediate type of course suited to the requirements of officials of commercial banks immediately below the managerial level such as sub-managers, accountants, etc. Accordingly, the Advisory Council of the Bankers' Training College decided in September 1959 to introduce an intermediate course with emphasis on subjects like ordinary banking operations,

internal accounts and audit systems, aspects of branch organisation, etc. This course is expected to be inaugurated shortly.

78. A specialised eight weeks' industrial finance course for the supervisory staff of State Financial Corporations and of member banks of the Refinance Corporation for Industry commenced in July 1960 at the Bankers' Training College. This was in implementation of a scheme formulated by the Bank following a suggestion made at the Fourth Conference of State Financial Corporations that the facilities of the College be made available for the purpose.

79. The scheme of training of co-operative personnel, both departmental and institutional, 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, 76 senior officers, 195 intermediate officers, 623 block level co-operative officers, 353 officers for co-operative marketing, 82 officers for land mortgage banking and 5,494 junior co-operative officers were trained during the year.

80. The Bank organised the Third Central Banking Course, commonly called the SEANZA Course, at the Bankers' Training College, Bombay, during January-March 1960. This course was attended by 18 members drawn from 16 central banks. The directing staff of the Course was provided by the central banks of Australia, India, Japan, New Zealand, and Pakistan. The Course aims at providing a rounded training in different aspects of central banking organisation, policies and techniques to executives of central banks.

National Tribunal on Wage Disputes in Banking Industry

81. An important development during the year was the decision made by the Government of India in March 1960 to refer the disputes in the banking industry to a National Tribunal. The Bank Award, as modified by the Industrial Disputes (Banking Companies) Decision Act, 1955 which regulated the pay scales, allowances, etc., of employees in the commercial banks expired on March 31, 1959. Immediately thereafter notices of termination of the Award were served by the various employee-organisations on the banks. The question of setting up a suitable machinery for resolving the disputes in the banking industry was examined by the Government of India and, in August 1959, the Government convened a Tripartite Conference to explore the ways and means for settling the disputes

in the industry. No definite conclusions were, however, reached at that conference. There was a general deterioration in the employer-employee relations in the banking industry and the employee-organisations demanded the appointment of a Commission by the Government of India under the Commission of Enquiry Act. This unrest manifested itself in the case of the State Bank of India in the form of a strike by that Bank's employees in March 1960 which lasted for about three weeks. Eventually, by its Notification No. S.O. 705 dated March 21, 1960, the Government of India referred, under the Industrial Disputes Act 1947, the disputes in the banking industry to a National Tribunal presided over by Shri Justice K. T. Desai for adjudication, and the matter is at present pending before that Tribunal.

82. The Reserve Bank of India was not governed by the Bank Award mentioned above. Hitherto, all matters relating to wage scale, allowances, etc., of the employees of the Reserve Bank were settled by direct negotiations with the Reserve Bank of India Employees' Association representing the staff in Classes II and III and the Reserve Bank of India 'D' Class Employees' Union representing the employees in Class IV. The last such agreement relating to the revision of pay scales was entered into with the Association/Union towards the end of 1954. The Reserve Bank employees also had been agitating for some time for a revision of their pay scales and other service conditions but the Bank postponed decisions pending the settlement of the dispute in the case of employees of the commercial banks and also pending the outcome of the recommendations of the Second Pay Commission. The employees of the Reserve Bank in the meantime submitted a charter of demands in June-July 1959, and as in the opinion of the Reserve Bank, the demands were so high that there was no likelihood of a meeting ground, the Bank referred the matter to the Government of India for appropriate action under the Industrial Disputes Act. By its Notification No. S.O. 707 dated March 21, 1960, the Government have directed the National Tribunal referred to above to adjudicate in this dispute also. The matter is at present pending before the National Tribunal.

Accounts and Other Matters

83. During the year under review, the Bank's income after making statutory and other provisions amounted to Rs. 47.57 crores and expenditure, which included the expenses of administration and provision of sundry liabilities and contingencies, to Rs. 7.57 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. 40 crores, the same as in the previous year. The Bank's income during the year showed an increase as compared to last year, mainly due to increased earnings under (a) Interest, on account of the funding of Ad hoc Treasury bills to the extent of Rs. 150 crores in December last and (*b*) Discount, owing to the increase in the average holdings of Rupee and Sterling Treasury bills.

84. An enhanced contribution of Rs. 10 crores, in place of the usual Rs. 5 crores, was made to the Bank's National Agricultural Credit (Long-term Operations) Fund, during the year under review, with the approval of the Central Government, as it was found that the balance in the Fund would not be sufficient to meet the objects for which the Fund was created. As in previous years, a sum of Rs. 1 crore was contributed to the Bank's National Agricultural Credit (Stabilisation) Fund.

85. Expenditure during the year rose by Rs. 31 lakhs mainly due to increase under the head "Establishment" and "Depreciation and Repairs to Bank Property" which is partly offset by the decrease under the head "Remittance of Treasure." The increase in expenditure under "Establishment" is mainly due to the augmentation of staff in the Agricultural Credit Department, the Economic Department and the Statistics Department and other offices and that under the head "Depreciation and Repairs to Bank Property" due to depreciation charged for the first time on the Bank's Office buildings at Nagpur and New Delhi and Staff Quarters at Madras. The decrease under "Remittance of Treasure" is accounted for by the discontinuance of special Notes remittances to the Persian Gulf areas.

Auditors

86. The Accounts of the Bank have been audited by Messrs. S. B. Billimoria and Co. of Bombay, Messrs. P. K. Ghosh and Co., of Calcutta and Messrs. Sastry and Shah of Madras, who were appointed by the Government of India as auditors of the Bank by Notification No. F. 3(47)-BC/59 dated September 24, 1959, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Composition of Central Board

87. The Union Government appointed Shri M. V. Rangachari as a Deputy Governor of the Bank for a term of five years, as from March 1, 1960 vice Shri K. G. Ambegaokar whose term of office expired on February 29, 1960.

88. The Board place on record their high appreciation of the valuable services rendered by Shri K. G. Ambegaokar all through his connection with the Reserve Bank of India.

89. Shri B. Venkatappiah, whose term of office as Deputy Governor expired on June 30, 1960, has been reappointed by the Union Government as a Deputy Governor for a further period of five years with effect from July 1, 1960.

90. Shri J. R. D. Tata and Shri G. Parameswaran Pillai retired as Directors of the Central Board on the expiry of their term of office on January 14, 1960 but were renominated by the Union Government in terms of Section 8(l)(c) of the Reserve Bank of India Act.

91. The Union Government nominated, with effect from June 3, 1960, Shri L. K. Jha, 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 A. K. Roy.

Meetings of the Central Board and its committee

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

Bank's Premises

93. During the year under review the construction of the Bank's new office building at Madras, the Bankers' Training College and a few residential buildings at Bombay was completed and that of the Co-operative Training College at Madras taken in hand. The plans for new office buildings of the Bank at Kanpur and Bombay and the Co-operative Training College at Poona are under preparation, and the construction work of the buildings is expected to commence shortly. A plot of land has been purchased at Bangalore for construction of an office building. The question of providing additional residential quarters to the staff in Bombay as well as at other centres is engaging the Bank's attention.

Opening and Closing of Offices or Branches of the Reserve Bank of India and Changes in Organisation and Management

94. During the year ended June 30, 1960, a Public Debt Office was established at Patna from April 11, 1960. The Note Cancellation Section at Tiruchirapalli was closed as from April 1, 1960.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1960

ISSUE DEPARTMENT

LIABILITIES	Rs. nP.	Rs. nP.	ASSETS	Rs. nP.	Rs. nP.
Notes held in the Banking Department	46,19,51,271 0 0		A. Gold Coin and Bullion :- (a) Held in India	117,76,02,749 97	
Notes in circulation . .	829,43,03,768 0 0		(b) Held outside India ..	..	
Total Notes issued . .		1875,62,55,039 00	Foreign Securities	143,00,89,629 06	
			Total of A . .		260,76,92,379 0 3
			B. Rupee Coin . .		128,45,77,038 5 8
			Government of India Rupee Securities . .		1486,39,85,621 3 9
			Internal Bills of Exchange and other Commercial Paper . .		
Total Liabilities .		1875,62,55,039 00	Total Assets		1875,62,55,039 0 0

BANKING DEPARTMENT,

LIABILITIES	Rs.	nP.
Capital paid-up	5,00,00,000	00
Reserve Fund	80,00,00,000	00
National Agricultural Credit (Long-term Operations) Fund	40,00,00,000	00
National Agricultural Credit (Stabilisation) Fund	5,00,00,000	00
Deposits :-		
(a) Government		
(1) Central Government	57,36,97,751	18
(2) Other Governments	19,48,50,197	16
(b) Banks	113,23,28,247	80
(c) Others	133,21,61,716	59
Bills Payable	17,52,49,809	95
Other Liabilities	11,30,75,016	84
Total Liabilities	482,13,62,739	52

ASSETS	Rs.	nP.
Notes	46,19,51,271	00
Rupee Coin	1,60,815	00
Subsidiary Coin	4,05,713	54
Bills Purchased and Discounted :-		
(a) Internal	..	
(b) External	..	
(c) Government Treasury Bills	6,57,68,273	50
Balances held abroad*	17,19,07,021	91
Loans and Advances to Governments	31,20,82,175	90
Other Loans and Advances	130,44,87,793	22
Investments **	232,56,01,477	00
Other Assets	17,89,98,198	45
Total Assets	482,13,62,739	52

Contingent liability on partly paid shares Rs. 4,06,66,666.67 (including sterling investments of £50,000 converted @ 1s. 6d).

* Includes Cash and Short-term Securities.

** Includes £266,250 held abroad.

N. D. NANGIA,
Chief Accountant.

H. V. R. IENGAR,
Governor.

B. VENRATAPPIAH,
Deputy Governor.

M. V. IUNGACHARI,
Deputy Governor.

Dated August 10, 1960.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED					
	June 30, 1960		June 30, 1959		June 30, 1958	
INCOME	Rs.	nP.	Rs.	nP.	Rs.	nP.
Interest, Discount, Exchange, Commission etc.	47,56,98,191	33	47,25,60,478	53	37,08,88,054	01
EXPENDITURE						
Establishment	3,99,90,211	06	3,78,09,386	14	3,42,60,182	35
Directors' and Local Board Members' fees and expenses	79,157	30	70,519	60	85,653	59
Auditors' fees	22,500	00	22,500	00	22,500	00
Rent, Taxes, Insurance, Lighting, &.	21,46,682	16	19,29,808	41	16,71,817	66
Law Charges	47,296	40	1,09,229	73	18,575	35
Postage and Telegraph Charges	3,44,744	30	3,24,117	25	3,12,871	31
Remittance of Treasure	20,27,926	67	46,24,122	47	29,95,379	26
Stationery, etc.	9,61,034	03	8,12,072	10	7,42,616	63
Security Printing—(Cheque, Note Forms, etc.)	1,19,78,666	19	1,14,98,408	34	1,24,15,100	72
Depreciation and Repairs to Bank property	46,33,013	68	23,63,393	19	23,45,978	74
Agency Charges	1,01,12,875	95	1,00,28,088	37	1,37,32,851	48
Contributions to staff and superannuation funds	7,32,000	00	4,63,000	00	29,000	00
Miscellaneous expenses	26,09,481	10	24,83,111	06	22,46,271	97
Net available balance	40,00,12,602	49	40,00,22,721	87	30,00,09,254	95
Total	47,56,98,191	33	47,25,60,478	53	37,08,88,054	01

PROFIT AND LOSS ACCOUNT—*Continued*

	FOR THE YEAR ENDED					
	June 30, 1960		June 30, 1959		June 30, 1958	
	Rs.	nP.	Rs.	nP.	Rs.	nP.
Surplus payable to the Central Government	40,00,12,602	49	40,00,22,721	87	30,00,09,254	95
Balance carried forward	*Nil*		*Nil*		*Nil*	
Total	40,00,12,602	49	40,00,22,721	87	30,00,09,254	95

RESERVE FUND ACCOUNT

By balance on June 30, 1960	80,00,00,000	0 0
By transfer from Profit and Loss Account ..	Nil	
Total	80,00,00,000	0 0

N. D. NANGIA,
Chief Accountant.

H. V. R. IENGAR,
Governor.

B. VENKATAPPIAH,
Deputy Governor.

M. V. RANGACHARI,
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, 1960.

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

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

Dated August 10.1960.

G. CLARIDGE & CO. LTD., FRERE ROAD, BOMBAY.