Reserve Bank of India

Report of the Central Board of Directors for the year ended June 30, 1961. Submitted to the Central Government in terms of Section 53 (2) of the Reserve Bank of India Act.

Annual Report 1961

RESERVE BANK OF INDIA

REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

FOR THE YEAR ENDED JUNE 30, 1961

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

August 1961

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1961)

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 R. G. Saraiya Shri B. P. Singh Roy Shri Mehr Chand Mahajan Shri K. Ramunni Menon
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. 1961)

WESTERN AREA

Shri R. G. Saraiya
Shri D. V. Potdar
Shri G. V. Puranik
Shri Arvind N. Mafatlal
Shri Naval R. Mody

EASTERN AREA

Shri B. P. Singh Roy
Shri D. N. Mitra
Sir J. D. K. Brown
Shri P. K. Roy
Shri K. K. Birla

NORTHERN AREA

Shri Mehr Chand Mahajan
Shri Charat Ram
Shri G. M. Modi
Sardar Amar Singh
Shri Bishamber Das

SOUTHERN AREA

Shri K. Ramunni Menon
Shri V. Emberumanar Chetty
Shri E. B. V. Raghavaiah
Shri V. S. Tyagaraja Mudaliar
Shri K. Gopalakrishna

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.

August 14, 1961
Sravana **23,** 1883 (*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 documents :-

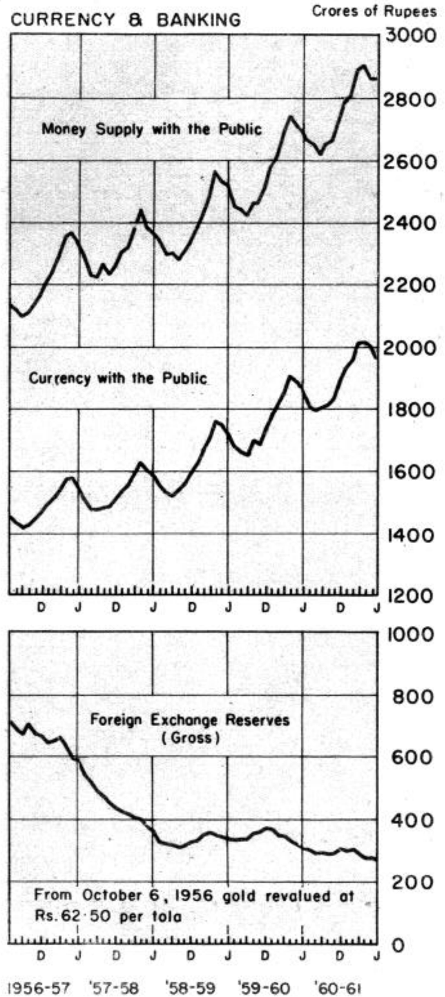
(1) A copy of the Annual Accounts of the Bank for the year ended the 30th June 1961 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's auditors;

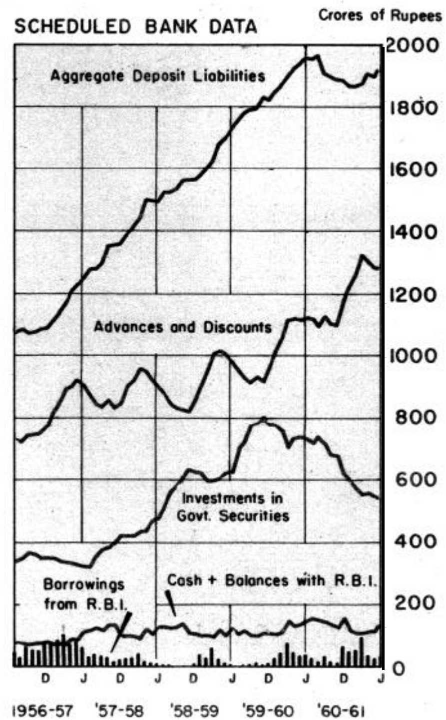
and

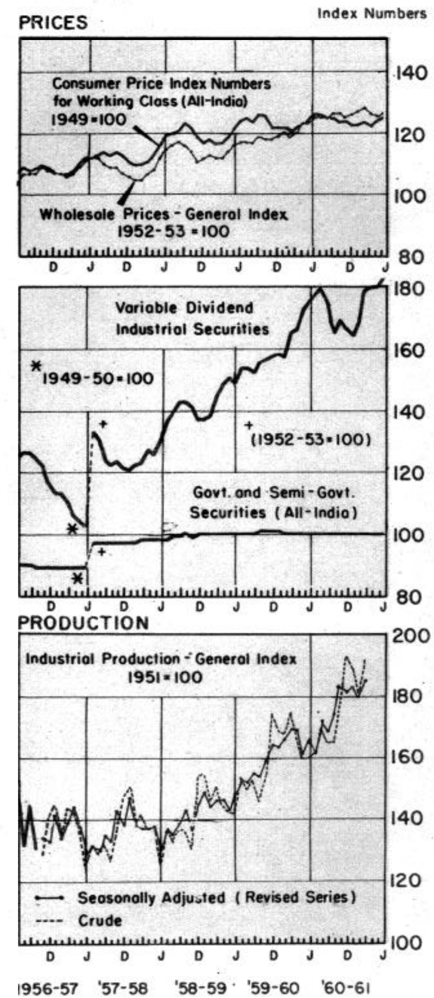
(2) Two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1961.

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

SELECTED ECONOMIC INDICATORS







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

For the year July 1, 1960—June 30, 1961

Developments in the Economy

General

During the accounting year ended June 30, 1961—which broadly corresponds with the final year of the Second Five Year Plan-the favourable developments in the Indian economy were a rise in aggregate investment, an encouraging advance in agricultural output and a record rate of increase in industrial production. The more sombre side of the picture included a sharp drop, for the second year in succession, in the output of raw jute and a deterioration in the balance of payments, with exports inadequately responsive to growing needs. The combined effect of natural factors, on the one hand, and of rising investment and the maturing of previous investment, on the other, was a marked growth of the economy during the year, accompanied, however, by signs of strain with shortages in power, including coal, in steel and cement and in transport. The price level rose further during the year though only by about a third as much as in the previous year, the smaller rise being largely due to the bumper domestic output of foodgrains supplemented by heavy imports from abroad, which began to exert a downward pressure on foodgrains prices from September 1960. Expansion in bank credit to the private sector and to Government led to a further sharp increase in money supply during the year; while the expansion in the former was larger than last year, that in the latter was smaller. The widespread boom in economic activity was also reflected in the ebullience of stock and capital markets and unusual activity in the new issue market for the greater part of the year.

2. In this context, the need for more effective action on the part of the Reserve Bank was clearly indicated, in particular to alleviate the growing pressure of monetary demand on the economy and to restrain inflationary pressures. The moderate action to regulate credit initiated in March 1960 through impounding of additional reserves of banks, which was further reinforced in May 1960, did not have significant effect on the volume of bank credit, which continued to remain high through the slack season, facilitated mainly by the relatively low cost of borrowing from the Reserve Bank. The resulting over-extended

position of banks provided the need as well as the opportunity for the more drastic measures of general credit restraint which the Bank instituted in September 1960. It introduced a system of slab rates and quotas to regulate banks' access to Reserve Bank assistance and, at the same time directed banks to raise their average lending rates by at least ½ per cent. Later, however, with a view to easing the impact of seasonal stringency, the Bank withdrew in two stages the additional reserve requirements which had remained in force throughout the slack season. The Bank's open market operations continued to be conducted in consonance with its policy of credit restraint. The selective credit controls continued to be flexibly operated in conjunction with the general credit measures and were either extended or relaxed in accordance with the changing needs of the situation. Further progress was made during the year towards strengthening the institutional machinery for credit to agriculture and industry. In particular, special efforts were made to consolidate and strengthen certain segments of the banking structure through the process of amalgamation and merger.

Production Trends

3. Overall agricultural production had attained a record level in 1958-59, but registered a decline in the following year; the index of agricultural output (base : 1949-50 = 100), which had risen sharply by 15.4 per cent to 132.3 in 1958-59, fell by 3.9 per cent to 127.2. The decline in 1959-60 was shared both by foodgrains and non-foodgrains, which recorded decreases of 4.5 per cent and 2.6 per cent, respectively. In 1960-61, according to provisional estimates, overall agricultural production is estimated to show substantial improvement. Foodgrains output is likely to be over 78 million tons, exceeding the earlier record of 75.5 million tons in 1958-59. The output of rice is also estimated to touch a record level of 33.7 million tons, which will exceed the Second Plan target of 32 million tons by 5.3 per cent. The output of wheat is also estimated to reach a record level of 10.6 million tons, although it will fall short of the Second Plan target of 11.5 million tons by 7.8 per cent. Among commercial crops, the output of cotton (according to trade estimates) shows a rise of 41 per cent from the very low level touched in the previous year and that of groundnuts (according to final official estimates) of 10.5 per cent. The production of raw jute, however, is estimated to have fallen by 12.5 per cent.

4. Progress in industrial production during 1960 was impressive, the rate of growth rising from 8.7 per cent in 1959 to 12.1 per cent. Notwithstanding the rather small increases of 3.5 per cent in 1957 and 1.7 per cent in 1958, the index of

industrial production rose over the Second Plan period by about 40 per cent. The actual increase would be higher, if output in the new industries established after 1951, which are not included in the official index of industrial production with 1951 as the base, were also taken into account. The average general index of industrial production (base : 1951 = 100) for 1960 worked out to 170.3, as compared to 151.9 in 1959. The higher rate of growth in 1960 was attributable to new units coming into production, to existing capacity being more fully utilised in some industries, including cement, steel, sugar, engineering and paper and paper boards, to a further appreciable improvement in the labour situation (the number of man-days lost declined from 56.3 lakhs in 1959 to 42.0 lakhs in 1960) and to larger supplies, supplemented by imports, where necessary, of some essential raw materials. With the turn of the year, however, the tempo of industrial production appeared to have slowed down due mainly to shortages of transport and power and, in some cases, of raw materials. The latest available indices of industrial production show a rate of growth in the first quarter of 1961 of 10 per cent as compared to the corresponding period of 1960.

Commodity Prices

5. The price situation continued to cause concern during the year under review, for the comparatively small rise in the general price level during the year came on top of a substantial rise in the four preceding years. The general index of wholesale prices (base : 1952-53 = 100) moved up more or less continuously from 122.8 in the last week of June 1960 to a new high of 127.4 in the week ended October 15, 1960, thus crossing the post-Korean peak of 126.4 reached in June 1951. The index declined, seasonally, to 124.2 in the week ended December 31, but subsequently resumed the uptrend to touch a new peak of 127.8 in the week ended March 11, 1961. This was followed by a temporary decline with the index moving down to 125.1 in the week ended June 10, but thereafter it again moved up to 127.2 by the end of June 1961. The index for June 1961 (monthly average of weekly prices) at 125.9 showed a smaller net rise of 2.4 per cent over the June 1960 average (123.0) as compared to a rise of 6.4 per cent in 1959-60, owing mainly to the down-trend in foodgrains prices since September 1960.

6. The moderate fall in foodgrains prices was a feature of the price situation in 1960-61. The decline occurred under the sub-group cereals, the index (monthly average) for which declined by 5 per cent, reflecting the impact of the large imports of foodgrains (mainly under P.L. 480) amounting to about 4.3 million tons in each of the two years 1959-60 and 1960-61, and

the anticipated record output of foodgrains in the 1960-61 season; other food articles, on the other hand, rose, especially edible oils and tea which moved up by 16.9 per cent and 9.8 per cent, respectively. In the result, the Food Articles group as a whole showed only a negligible rise of 0.2 per cent as compared to a rise of 1.3 per cent in 1959-60. In view of the comfortable supply situation of wheat, the Government of India removed all restrictions on the movement of wheat and wheat products throughout the country with effect from April 5, 1961; the Reserve Bank also removed this commodity from the ambit of its selective controls from May 15. While the Food Articles index remained generally stable, the two groups 'Industrial Raw Materials' and 'Manufactures' which for the first time since 1951 had emerged as important contributory factors to the price rise in 1959-60, recorded further increases in 1960-61, and were mainly responsible for the continued rise in the general price level. The indices for the Industrial Raw Materials and Manufactures groups rose by 6.4 per cent and 4.5 per cent, respectively, as compared to increases of 16.1 per cent and 10 per cent in 1959-60.

7. The rise of 6.4 per cent in the Industrial Raw Materials group was brought about by the sharp increases under raw jute and groundnuts, the indices for which rose further by 11.2 per cent and 14.4 per cent, respectively, on top of increases of 63.1 per cent and 8.3 per cent in 1959-60. The raw cotton index, on the other hand, recorded a modest decline of 1.9 per cent, as against a rise of 7.0 per cent last year, reflecting the improvement in the output of raw cotton in 1960-61 as compared to 1959-60. The index for raw jute, which had averaged at 186.9 in June 1960, shot up to a high of 289.5 for the week ended February 11, 1961, the sharp rise reflecting the tight supply situation following the shortfall in output in two successive years. Thereafter, there was a distinct reversal in raw jute prices, to some extent as a result of the various corrective measures taken by the authorities, but mainly owing to anticipations of a bumper crop in the 1961-62 season, the index dropping to 207.9 for June 1961. The index for groundnut rose from 145.8 in June 1960 to 153.2 for the week ended July 30, and, after declining to 137.5 for the week ended November 19, 1960, rose again to 166.8 for June 1961. The rise of 4.5 per cent in the Manufactures group, which reflected mainly the impact of the rise in raw material prices, occurred principally under jute textiles, the index for which rose by 10.6 per cent.

8. The all-India working class consumer price index (base : 1949=100) rose initially from 124 in June 1960 to 126 in July 1960, and, after declining to 123 in April 1961, moved up to

125 in June. The average for the year ended June 1961 showed a small rise of 0.8 per cent over 1959-60.

9. During the Second Plan period as a whole, the general price level has risen by 30 per cent, in contrast to a decline of 18.4 per cent in the First Plan. The rise during the Second Plan arose primarily from the growing pressure of demand superimposed on basically inadequate agricultural production, both of food-grains and raw materials. Thus, whereas the shortfall in foodgrains output contributed to most of the price rise in the first three years of the Plan, the fall in the industrial raw materials output was mainly responsible for the rise in the remaining two years. In this context, the imperative need for a stable and satisfactory rate of growth in agricultural production can hardly be over-emphasised.

Monetary Situation and Banking Trends

10. In the monetary sphere, reflecting the continuing high tempo of economic activity, both money supply with the public and scheduled bank credit showed a larger expansion than in the preceding year. Money supply with the public rose by Rs. 204 crores (adjusted for withdrawals of special currency from Kuwait, referred to below) or 7.5 per cent, as compared to Rs. 171 crores or 6.8 per cent in 195960. As in the previous year, the bulk of the expansion in 1960-61 also occurred under currency with the public, which accounts for more than two-thirds of total money supply. The growth in money supply in the Second Plan period (end-March 1956 to end-March 1961) was significantly larger than in the First Plan period, the aggregate net expansion amounting to Rs. 722 crores or 33.1 per cent as compared to Rs. 199 crores or 10.1 per cent in the First Plan.

11. In May-June 1959, it may be recalled, a Special Series of India notes to replace the ordinary India notes circulating in the Gulf Sheikdoms of Bahrain, Kuwait. Qatar, the Trucial States and Muscat had been introduced. During the year under review, the Government of Kuwait decided to replace the Indian currency with a local currency, known as the Dinar, with effect from April 1, 1961. In terms of an Agreement arrived at between the Government of India and the Government of Kuwait for the settlement of India's liability in regard to the Indian currency in circulation there, the Kuwait Government was required to retire the Indian currency within a period of 6 weeks from the commencement of the operation or such further period as might be prescribed under the local currency decree and tender the same at the Rank at Bombay. India's liability for the

currency so tendered was to be discharged in sterling in eleven annual instalments. The Kuwait Government accordingly retired from circulation and remitted to India Indian currency of the value of Rs. 34.2 crores by the end of June 1961, and this sum was credited to that Government on the books of the Reserve Bank. A sum of Rs. 25 crores from out of the amount credited to the Kuwait Government has since been transferred to the Government of India in accordance with the provisions of the Agreement, and the balance is expected to be transferred to the Central Government in the near future. The Government of India paid to the Kuwait Government, in accordance with the provisions of the Agreement, the first instalment of £ 1.98 millons on July 1, 1961.

12. The expansion in bank credit (covering also non-scheduled and State co-operative banks) to the private sector, which was larger than in the previous year (Rs. 210 crores as against Rs. 190 crores), was the most important factor accounting for the rise in money supply during the year. At the same time, the rise in time deposits (exclusive of P.L. 480*) was smaller, so that the net credit extension by banks to the private sector (Rs. 144 crores) was much larger than in the previous year (Rs. 83 crores). Bank credit to Government (comprising mainly the increase in the Government securities portfolio of the banking system and the change in the cash balances of Government, adjusted for P.L. 480 deposits* with the State Bank) expanded during the year by Rs. 103 crores, as compared to Rs. 144 crores in the preceding year. The growing pressure of demand for bank credit in the past few years is reflected in a progressive decline in the seasonal contraction in money supply; thus, the contraction during the 1960 slack season (May-October) was Rs. 86 crores only as compared to Rs. 112 crores in the 1959 slack season and Rs. 158 crores in the 1958 slack season. The 1960-61 busy season (November-April) expansion (Rs. 282 crores) in money supply was somewhat larger than in the preceding busy season (Rs. 276 crores).

13. Aggregate deposit liabilities of scheduled banks (inclusive of P.L. 480 counterpart funds), which had *risen* by Rs. 235 crores in 1958-59 and by Rs. 228 crores in 1959-60, *declined* by Rs. 35 crores during 1960-61. This decline was, however, more than accounted for by the change in the arrangements regarding the placement of P.L. 480 funds, whereby these funds ceased to accrue to the State Bank with effect from May 12, 1960 and, at the same time, past accumulations of these deposits with the State Bank were transferred to the Reserve Bank in instalments of Rs. 12 crores per month commencing from July 1960. But

*The figures for P.L. 480 funds are approximations.

for this change, aggregate deposit liabilities would have shown a rise of Rs. 130 crores in 1960-61, which, however, would still be smaller than the rise (excluding P.L. 480 accruals to the State Bank) in 1959-60 (Rs. 163 crores). The smaller growth of deposits was the combined result of several factors including a widening of the balance of payments deficit, the closure of two scheduled banks, one in May and the other in August 1960, which temporarily affected depositors' confidence to some extent, some diversion of deposits to business concerns and the unorganised money market on account of the higher interest rates offered by them, and the slower pace of deficit financing in the last two years. During the year, time liabilities (inclusive of P.L. 480) declined by Rs. 97 crores as against a rise of Rs. 194 crores in 1959-60; demand liabilities, on the other hand, rose by Rs. 63 crores as against Rs. 34 crores in 1959-60 and Rs. 7 crores in 1958-59.

14. The increased pressure on bank resources during the year, influenced as they were by the fall in deposits and the temporary imposition of additional reserve requirements, was met by substantial net *sales* of Govkrnment securities by scheduled banks. These amounted to Rs. 191 crores as against net *purchases* of Rs. 104 crores in 195960, Rs. 149 crores in 1958-59, and Rs. 155 crores in 1957-58. The decline in scheduled banks' investments in Government securities during the year is, however, overstated because of the transfers of P.L. 480 funds from the State Bank, just as the rise in banks' investments in the previous three years was exaggerated by the accrual of these funds to the State Bank. The investment-deposit ratio declined over the year from 37.7 per cent to 28.4 per cent. Gash reserves declined in 1960-61 by Rs. 11 crores (to Rs. 145 crores) as against a rise of Rs. 17 crores in 1959-60, reflecting mainly the revocation of the additional reserve requirements imposed in March and May 1960. Cash reserves of scheduled banks had reached a high of Rs. 172 crores on July 15, 1960, with the cash ratio rising to 8.8 per cent. At the end of June 1961, the reserves stood at Rs. 145 crores and the cash ratio at 7.5 per cent as compared to 7.9 per cent a year before. The excessive strain on resources resulted in a larger resort by banks to the Reserve Bank, despite the introduction of the system of slab rates on October 1, 1960. Scheduled banks' outstanding borrowings from the Reserve Bank touched a peak of Rs. 94.5 crores as on March 31, 1961 in the 1960-61 busy season as against Rs. 79 crores in the 1959-60 busy season, the average rate of interest charged by the Bank in respect of these borrowings being 5.46 per cent. Subsequently, however, banks reduced their borrowings appreciably, the outstanding as at end-June 1961 being only Rs. 15.4 crores, of which Rs. 10.5 crores

were against usance bills and Rs. 4.9 crores against Government securities.

15. Scheduled bank credit, which had expanded by Rs. 139 crores in 1959-60, rose further by Rs. 163 crores (to Rs. 1288 crores) during the year under review. The expansion in 1960-61 occurred together with a decline in deposit resources (inclusive of P.L. 480 funds) of Rs. 35 crores; in contrast, the expansion in 1959-60 took place alongside a rise of Rs. 228 crores in deposit resources (inclusive of P.L. 480 funds). Exclusive of P.L. 480 funds, as explained earlier, deposit liabilities showed a rise of Rs. 130 crores in 1960-61 as compared to Rs. 163 crores in 1959-60. On the basis of the annual average figures, the rise in bank credit during the year as compared to the previous year was sharper still, being Rs. 185 crores as compared to a rise of Rs. 99 crores, on the average in 1959-60. The comparatively smaller slack season contraction was a major factor contributing to the larger credit expansion in 1960-61. As against a decline of Rs. 118 crores in the 1958 slack season and of Rs. 79 crores in the 1959 slack season, the contraction in the 1960 slack season was barely Rs. 20 crores; a decline in advances against seasonal commodities was mostly offset by increased credits against industrial goods. The expansion in the 1960-61 busy season, on the other hand, exceeded the previous busy season's record level of Rs. 189 crores by Rs. 10 crores. The credit-deposit ratio rose sharply from 57.2 per cent at end-June 1960 to 71.1 per cent by end-March 1961 and stood at 66.7 per cent at end-June 1961; excluding P.L. 480 funds, the ratio worked out to 72.9 per cent at the end of June 1961 as compared to 68.8 per cent a year before. It may be noted that credit expansion in the Second Plan period proceeded at a much faster rate than in the First Plan, the aggregate net rise in the period 1956-61 being Rs. 575 crores or 76 per cent as compared to about Rs. 200 crores or only 35 per cent during the period 1951-56.

16. The short-term money market was characterised by unusually stringent conditions almost throughout the year, due to the heavy strain on the liquidity of banks resulting from the higher level of credit demand, the impounding of additional reserves (until the withdrawal in early January 1961 of the directive in this behalf) and the fall in deposits between September 1960 and January 1961. Money rates consequently recorded a sharp rise. The inter-bank call money rate in Bombay rose from 3.50 per cent in June 1960 to 5.26 per cent in February 1961, and although subsequently the rate declined to 4.46 per cent in June, it was substantially higher than that a year ago (3.50 per cent). In Calcutta, the inter-bank call rate rose from 3.76 per cent in June

1960 to 5.33 per cent in March 1961 and stood at 4.11 per cent in June 1961. Term deposit rates of the larger banks continued to be quoted at the ceiling levels fixed under the All-India Inter-Bank Agreement on Maximum Deposit Rates. Mention was made in last year's Report of the reduction in August 1960, in terms of a revision then made in this Agreement, of the maximum interest rate on notice money from $3\frac{3}{8}$ per cent to 3 per cent and that on term deposits under three months from $3\frac{3}{8}$ per cent to $3\frac{1}{4}$ per cent for one month and over but less than 3 months, and to 3 per cent for less than one month. In the context of the continuing stringency in the money market and of a slackening in the rate of deposit growth, the Agreement was revised twice during the year, viz., in November 1960 and March 1961 in the direction of higher rates. Thus, in November 1960, the rate on deposits for "61 days to less than three months" and that on deposits for " 1 year to less than 2 years" were raised by $\frac{1}{4}$ per cent. Term deposits beyond two years, which were formerly not accepted by banks, were made acceptable, and rates ranging from 4 per cent on deposits for two years to $4\frac{1}{2}$ per cent on deposits for five years were fixed. The rate on deposits for a term of or subject to a notice of upto 21 days was, however, reduced from 3 per cent to 2 per cent in compliance with the Reserve Bank's directive of September 21, 1960, but subsequently, in March 1961, following the withdrawal of this directive (effective February 22), this rate was restored to its earlier level of 3 per cent. In the March 1961 revision, term deposits were further regrouped according to maturity and the rates raised by $\frac{1}{4}$—$\frac{1}{2}$ per cent on a number of categories, effective March 15, 1961. Also, the maximum rate on savings bank accounts, which had remained at $2\frac{1}{2}$ per cent since 1958, was raised to 3 per cent, effective April 1, 1961.

Government Finances

17. Government finances in recent years have shown a progressive decline in the combined overall deficits of the Central and State Governments, in spite of the continuous growth in Plan outlays. Thus, while the Plan outlay in the public sector has risen from Rs. 633 crores in 1956-57 (April-March) to Rs. 884 crores in 1957-58, Rs. 1001 crores in 1958-59, Rs. 1011 crores in 1959-60 and Rs. 1071 crores in 1960-61, the overall deficit of the Centre and States together, as shown in the budget documents, has declined from Rs. 478 crores in 1957-58 to Rs. 169 crores in 1958-59, Rs. 158 crores in 1959-60 and Rs. 126 crores in 1960-61. This improvement reflected mainly the increase in tax receipts and the substantial external assistance received for financing the Second Plan. Of the combined deficit of Rs. 126 crores for 1960-61, the deficit on account of the Central Government has been estimated at only Rs. 34 crores, as compared to Rs. 170 crores in

1959-60, the reduction of the deficit reflecting mainly the credit of Rs. 240 crores taken under capital receipts for 1960-61 on account of the accrual of P. L. 480 counterpart funds through sale of special securities to the U.S. Embassy. Viewed from the angle of the wider concept of bank credit to Government, mentioned earlier, the deficit in 1960-61 would work out to Rs. 109 crores as compared to Rs. 174 crores in 1959-60.

18. Net market borrowings of the Central and State Governments during 1960-61 (April-March) amounted to Rs. 134 crores as compared to Rs. 175 crores in 1959-60 and Rs. 227 crores in 1958-59; the decline in 1960-61 is largely accounted for by non-accrual of fresh P. L. 480 funds to the State Bank. Net borrowings of the Centre amounted to Rs. 67 crores as against Rs. 107 crores in 1959-60. In July 1960, the Central Government floated two cash-cum-conversion loans (viz., the 39 per cent Bonds 1966 and the 4 per cent Loan 1980) for an aggregate amount of Rs. 175 crores, the total subscriptions to which amounted to Rs. 181 crores, of which Rs. 106 crores were in cash and Rs. 75 crores on account of conversion. Treasury bills for Rs. 50 crores held by the Reserve Bank of India in the Issue Department were funded in January 1961—the third funding operation since July 1958—into further issues of the $3\frac{1}{2}$ per cent National Plan Bonds (Third Series) 1967 (Rs. 10 crores), the $3\frac{3}{4}$ per cent National Plan Bonds (Fifth Series) 1968 (Rs. 30 crores) and the $3\frac{1}{2}$ per cent Bonds 1969 (Rs. 10 crores). Net sales of Central Government Treasury bills (including intermediates) to the public amounted to Rs. 3 crores during 1960-61 as compared to Rs. 0.7 crore in 1959-60.

19. Reference had been made in last year's Report to the floatation by 12 State Governments in August 1960 of market loans for an aggregate amount of Rs. 75 crores. All the loans were cash loans, except those issued by Madhya Pradesh, Madras, Maharashtra and Uttar Pradesh which were cash-cum-conversion loans. Total subscriptions to these loans amounted to Rs. 85 crores, of which Rs. 80 crores (including conversions amounting to Rs. 6 crores) were accepted. Taking into account cash repayments of Rs. 7 crores, the net market borrowings of State Governments during 1960-61 amounted to Rs. 67 crores or about the same as in the previous year (Rs. 68 crores).

20. Gross market borrowing of the Centre for 1961-62 are estimated at Rs. 225 crores.* Net market borrowings (taking into account cash repayments for Rs. 137 crores) are placed at

*Excluding Rs. 10 crores estimated on account of Prize Bonds.

Rs. 88 crores. As the first instalment of the 1961-62 borrowing programme, the Central Government issued on May 15, 1961 a further tranche of the $3\frac{1}{2}$ per cent National Plan Bonds (Third Series) 1967 for the conversion of three maturing loans, viz., the $3\frac{1}{2}$ per cent National Plan Bonds (First Series), 1961, the $2\frac{1}{2}$ per cent Loan, 1961 and the 3 per cent Hyderabad Loan 1951-61, with total outstandings aggregating Rs. 139 crores. The total amount subscribed was Rs. 93.57 crores. Later, on July 14, the Government announced the floatation of two new cash-cum-conversion loans for a total amount of Rs. 100 crores, namely, (i) a further tranche of the $3\frac{1}{2}$ per cent Bonds 1969 at Rs. 98.40 per cent and (ii) the 4 per cent Loan 1981 at Rs. 98.50 per cent. The maturing $2\frac{1}{2}$ per cent Loan 1961 and the 3 per cent Hyderabad Loan 1951-61 were accepted at par for conversion into the new loans. The new. loans opened for subscription on July 24, and were closed on July 26 on being fully subscribed, total subscriptions amounting to Rs. 108.6 crores, of which cash subscriptions constituted Rs. 104.9 crores.

21. Thirteen State Governments will shortly come on the market for an aggregate amount of Rs. 80 crores. They will be floating $4\frac{1}{4}$ per cent loans maturing in 1972, with amounts ranging from Rs. 3 to Rs. 10 crores, and issue prices ranging from Rs. 99.50 to Rs. 100. Taking into account repayment of maturing loans amounting to Rs. 14 crores, the net market borrowings will amount to Rs. 66 crores.

22. The performance of small savings during the year was encouraging. Net receipts of small savings amounted to Rs. 107 crores (provisional) in 1960-61 (April-March), which marked an appreciable rise of Rs. 23 crores over the previous year (Rs. 84 crores) and exceeded, for the first time, the annual average target of Rs. 100 crores fixed for the Second Five Year Plan. Total net collections during the Second Plan period amounted to Rs. 401 crores or over Rs. 80 crores per annum. The increase in. small savings during the year was largely accounted for by Post Office Savings Bank Deposits. Net receipts under this item at Rs. 46 crores (provisional) were higher by Rs. 20 crores, the increase reflecting some diversion of deposits from commercial banks early in the year, following the closure of two scheduled banks. For 1961-62, net receipts of small savings are estimated at Rs. 105 crores. Further measures taken during the year to popularise small savings included (1) the reconstitution, in September 1960, under the chairmanship of a Deputy Minister of Finance, of the National Savings Central Advisory Board, (2) the decision to extend to Cumulative Time Deposits, the payment of

commission to employers under the Pay Roll Savings Scheme, which hitherto was restricted to investments in National Plan Savings Certificates and the Treasury Savings Deposit Certificates, (3) the decision to accept maturing $3\frac{1}{2}$ per cent Treasury Savings Deposit Certificates in lieu of cash for investment in the 4 per cent Treasury Savings Deposit Certificates, (4) the amendment of the Rules relating to Cumulative Time Deposit Accounts to provide for the immediate payment of the surrender value to the heirs in the event of the death of the depositor in the case of a single account and to the survivor in the case of a joint account and (5) the extension of clearing house facilities to General Post Offices (Savings Bank) and certain selected post office savings banks. Receipts from the Five-Year Interest-free Prize Bonds, issued since April 1, 1960, amounted to Rs. 15.6 crores, of which Rs. 8.9 crores were in Bonds of the Rs. 5 denomination and the balance of Rs. 6.7 crores in Bonds of the Rs. 100 denomination.

Capital Market

23. The capital market, on the whole, maintained the buoyancy of the preceding two years, judging from the volume of new issues, although the public's excessive enthusiasm, which had characterised the new issue market in 1959-60, appeared to have abated. In the share market, the boom conditions noticed since January 1958 continued upto end-July 1960, but thereafter there was a rather prolonged break in share prices upto mid-January 1961, which reflected mainly the cumulative impact of the successive credit restraint measures adopted by the Reserve Bank in March and May 1960 as well as in 'September, the regulatory action taken by some of the Stock Exchanges themselves in June 1960 through a tightening of their margin system, and the market's apprehensions regarding possible official action to restrict the transfer of shares taken up by promoters and their friends and the starting by established companies of new lines of production unrelated to their main line of activity. From mid-January 1961, however, the primary bullish trend reasserted itself and share prices rose steadily to a new all-time peak by mid-June 1961. The market's reaction to the budget proposals announced on February 28, 1961 was distinctly bullish. Sentiment was chiefly aided by the reduction in the tax on bonus issues and the tax on royalties received by foreign companies from Indian enterprises as well as by the absence of any increase in corporate taxation. Other bullish factors included the rising trend of industrial production and prospects of further industrial growth in the Third Plan, especially in the context of the continuing import curbs and the various incentive schemes for export promotion, as well as the substantial foreign assistance assured for the implementation of the Third

Plan under' the aegis of the Aid-India Club. As a result partly of the market's over-bought position and partly the monetary stringency, the *budla* rates on the Bombay Stock Exchange rose to unduly high levels in the period February-March 1961. In view of the growing bull pressure on the market, the authorities of the Bombay Stock Exchange reimposed, in early March 1961, the special deposit making-up prices in respect of a few leading speculativecounters, which they had earlier removed in February 1961, but this appeared to have had no appreciable effect. The Reserve Bank's index 'of variable dividend industrial securities (base : 1952-53 = 100) rose initially from 175.4 at the end of June 1960 to 182.0 by end-July 1960 and, after dropping to 163.3 by mid-January 1961, rose again to a new peak of 184.2 in mid-June 1961; it stood at 183.8 at the end of June. Over the year, the index showed a rise of 4.8 per cent on top of a rise of 16.2 per cent in 1959-60 and 13.4 per cent in 1958-59. As compared to the low of 119.7 reached in early-January 1958, the June-end 1961 level marked a rise of 54 per cent.

24. Reflecting in part the operation of the Reserve Bank's credit measures, in particular the impounding of additional reserves, the gilt-edged market ruled dull and featureless upto about mid-September 1960. The imposition of the September 21 credit curbs touched off an easy tendency, which lasted upto early-November, the resultant declines being more pronounced in State loans than in Central loans. A marked recovery ensued thereafter, partly as a sequel to the relaxation of the additional reserve requirements on November 11, 1960 and their complete revocation on January 13, 1961; the revival in prices, like the post-September 21 decline, was also comparatively more marked in State loans. For the year as a whole, most of the Central and State loans recorded net declines, which ranged upto Rs. 1.95 in the case of Central loans and Rs. 2.25 in the case of State loans. The loan floatations of the Central Government in July 1960 and of the State Governments in August 1960 were fairly successful, although the response was not quite as encouraging as in the previous year. The pressure on the liquidity of the banking system during the year resulted in substantial net sales of Government securities by banks as compared to net purchases in the earlier years. Thus, scheduled banks reduced their gilt-edged portfolio by Rs. 191 crores during 1960-61, in contrast to a net addition of Rs. 104 crores in 1959-60*. The Reserve Bank's open market operations resulted in net purchases of Rs. 171 crores

***This shift was largely explained by the change in the arrangements in regard to the holding of P. L. 480 funds, but even after allowing for this, there was a sizeable decline in the holdings of Government securities of banks.**

against net sales of Rs. 66 crores in 1959-60; the bulk of these purchases (Rs. 144 crores). however, represented the monthly transfer of Rs. 12 crores of P.L. 480 funds by the State Bank to the Reserve Bank beginning from July 1960; the net sales in 1959-60 represented largely sales to the State Bank for investments of P.L. 480 funds. The Reserve Bank's index of prices of Government and Semi-Government Securities (base: 1952-53 = 100) remained unchanged around 101.2 till mid-September 1960, and after dropping to 100.6 in early-November, recovered to 101.0 by the end of June 1961. The rise in yields was comparatively more marked in State loans, which on an average rose by about 0.20 per cent as against an average decline of 0.05 per cent in 1959-60, the rise being more marked in medium-dated loans (0.25 per cent). Among Central loans, the yields on mediums rose by 0.10 per cent and on longs by 0.05 per cent, while the yield on shorts declined by 0.07 per cent.

Balance of Payments

25. The country's international payments position showed a further deterioration during the accounting year 1960-61. This deterioration, which occurred despite a substantial increase in net official capital receipts, was the result of a widening of the trade deficit coupled with a steep reduction in net receipts under invisibles other than official donations. Export receipts are expected to be somewhat below the level reached last year; import payments, on the other hand, are estimated to rise by more than one-sixth. Reflecting the growing external liabilities, net invisible receipts are likely to be considerably lower than in the preceding year and in fact in the quarter January-March 1961 there was, for the first time, a net payment on account of invisible transactions, which included India's payment of Rs. 8 crores to the Indus Basin Development Fund. The foreign exchange reserves, therefore, suffered a larger draft (Rs. 45 crores) than in the previous year (Rs. 29 crores)), the reserves falling from Rs. 327 crores to Rs. 282 crores; special payments, involving foreign exchange outlay amounted to Rs. 52 crores in 1959-60 (on account of the increased subscription to the I.M.F. and the repurchase of rupees from it). The impact of almost the entire fall in the exchange reserves in 1960-61 was in fact borne by the Bank's foreign assets which declined over the year by Rs. 47 crores to Rs. 114 crores, as against a draft of Rs. 31 crores in the previous year.

26. During the first nine months of the Bank's accounting year for which payments data are available, the deficit on current account increased to Rs. 271 crores from Rs. 101 crores in the corresponding period last year, following a rise of Rs. 115 crores

in import payments and a drop of Rs. 41 crores in net receipts from invisibles other than official donations and movement of non-monetary gold and a decline of Rs. 8 crores in export earnings. The deficit with the dollar area almost quintupled to Rs. 153 crores; imports rose by more than half over the corresponding period of the previous year, while net invisible receipts declined sharply. An equally sharp movement occurred in respect of the rest of the non-sterling area, a current surplus of Rs. 37 crores in July 1959—March 1960 having turned into a deficit of Rs. 5 crores. Larger imports and invisible payments widened the deficit with the O.E.E.C. countries from Rs. 80 crores to Rs. 106 crores. Contrary to these trends, the payments deficit with the sterling area showed a contraction of Rs. 19 crores to Rs. 7 crores, as a result of a sharp fall in Government imports.

27. Import payments aggregated Rs. 800 crores in the period July 1960—March 1961; in the corresponding period of the previous year, they had totalled Rs. 685 crores. Imports on private account accounted for Rs. 65 crores of the rise over the year, while Government imports, which were responsible last year for the entire reduction from the 1958-59 level, rose by Rs. 50 crores. Private imports at Rs. 442 crores reached a quarterby average of Rs. 147 crores in the period under review; they had averaged about Rs. 125 crores in 1959-60, Rs. 163 crores in 1957-58 and Rs. 205 crores in 1956-57; the rise in the first nine months of 1960-61 reflected the rising maintenance requirements of the economy. Food imports under P.L. 480 accounted for the whole of the rise in Government imports, the larger imports of iron and steel and capital equipment having counterbalanced the fall in communication and defence stores.

28. With a high level of economic activity at home and abroad and especially in nearly all our major markets, export earnings of Rs. 479 crores in the first nine months of 1960-61 were disappointing. Jute manufactures, which were helped greatly by the smart rise in jute prices, brought in Rs. 104 crores or Rs. 19 crores more than last year, and constituted, apart from metallic ores and oilseeds, the only major export item recording a rise over the corresponding period of last year. Earnings from cotton manufactures declined by Rs. 9 crores, oilcakes by Rs. 8 crores, tanned hides and skins by Rs. 6 crores, and tea and raw hides and skins by Rs. 3 crores each, while those from vegetable oils nearly halved to less than Rs. 8 crores. Metallic ores, which eamed Rs. 3 crores more than last year, were helped by the special agreements in respect of iron and manganese ores. Even though the unorthodox Chinese competition of the earlier years was not very noticeable, the improvement in cotton textiles exports witnessed last year proved short-lived owing partly to the

shortage of home-grown cotton during the greater part of the period under review and the use of imported cotton by mills leading to a rise in costs, and partly to restrictions on textile imports imposed by the U.K. The relatively poor export performance reflected the severe competition that all major exports had to face abroad and emphasised the imperative necessity to reduce costs and improve quality at the same time as the volume of output is increased and the range of export products is diversified. Fuller utilisation of existing capacity in some industries and modernisation and rationaiisation of other industries are urgently called for. A thorough probe is at the same time.required into the factors—general and specialised, relating to raw material prices or wage-costs-which account for the steady rise in the cost-structure that erodes the ability of industry to export.

29. Export promotion received increasing attention and a number of further measures were adopted during the year. The export duty on tea was reduced and other incentives consisting of refund of customs duties on imported raw materials and rebate of excises on indigenous materials were extended. The process of dismantling export controls continued during the year, and controls over the export of more than 90 agricultural commodities and manufactures were abolished, and certain export items subject to quotas were placed on the free-licensing list. As a result, some 35 commodities only remain subject to export control, mainly for defence needs or to ensure industrial raw materials for export industries or to conserve supplies for domestic consumption (e.g. foodgrains and vegetable oils) or to canalise exports through State-trading channels. The few controls that remain are under constant scrutiny from the point of view of export promotion. New incentive schemes were introduced in respect of exports of a few items including coir goods and manganese ore and existing schemes for cotton textiles and art-silk were widened in scope. Incentive schemes, covering among others engineering goods, were made more attractive by providing for the grant of import entitlements on a loan basis against specific export commitments. Credit facilities for exporters were strengthened by the extension of cover provided by the Export Risks Insurance Corporation to 'packing credits*. Two committees were set up by the Government, one for examining the question of quality control and pre-shipment inspection of export products and the other for examining the working of import and export controls and import priorities.

30. Accentuating the balance of payments position is the expected adverse movement in invisibles, with the growing costs of servicing the large inflow of foreign capital--official as well as private-and the higher payments for foreign services. As against this, invisible earnings are on the decline; excluding the movement

of non-monetary gold, gross invisible receipts in July 1959—March 1960 were Rs. 163 crores, while they amounted to Rs. 150 crores in July 1960—March 1961. Private donations (i.e. private unilateral receipts) have been showing a significant fall. They declined by as much as Rs. 9 crores to Rs. 32 crores in the nine months under review from the level in the corresponding period a year ago. Except in the case of receipts from Ceylon, which were reduced due to the new restrictions on outward remittances, the worsening on this account appears to be the result of the diversion of funds to other, apparently illicit, channels.

31. It is against the above background that increasing reliance has come to be placed on external assistance for meeting our foreign exchange needs, not only of new investment for development, but also to some extent for financing the current import needs of the economy. Net official capital receipts during July 1960—March 1961 amounted to Rs. 244 crores or double the figure for the corresponding period last year, though amortization payments were almost treble the level last year. Following a more informed and helpful appreciation in friendly countries led by the U.S.A., of India's developmental needs, an encouraging picture has emerged regarding external assistance. The I.B.R.D. convened in the period under review two more meetings of the 'Aid India Club'; at the first meeting held in September 1960, Canada, West Germany, Japan, U.K., U.S.A. and the World Bank attended as members of the Consortium and the Netherlands, Italy and the I.M.F. as observers, while at the second meeting held in May 1961, France and the International Development Association joined as members of the Consortium and Austria, Denmark, Norway, Sweden and the I.M.F. attended as observers. These deliberations have brought a promise of Rs. 1,060 crores of assistance for the first two years of the Third Plan, out of the estimated total requirement of Rs. 2,600 crores, excluding Rs. 600 crores available under P. L. 480 agreements, for the whole of the Plan period. The commencement of operations by the International Development Association, an affiliate of the World Bank, which would make 'soft' loans, was a further welcome development during the year; it has already made its first loan to India for road development.

32. Total external assistance authorised from April 1956 upto the end of June 1961 amounted to Rs. 2,695 crores, of which the U.S. Government's P.L. 480, P.L. 665 and third-country currency assistance programmes accounted for Rs. 1,131 crores. Together with the carryover of Rs. 193 crores from the First Plan, the assistance available for use upto the end of June 1961 totalled Rs. 2,888 crores, of which Rs. 1,466 crores or just over half the amount had been utilised by the end of the Second Plan. Aid utilisation during April 1956—March 1961 consisted of

Rs. 545 crores under P.L. 480, P.L. 665 and third-country currency assistance programmes of the United States, Rs. 723 crores of official loans and Rs. 198 crores of grants.

33. Private foreign investment is estimated to have been higher than in 1959. Though approvals granted in 1960 for the issue of shares in Indian companies to non-residents amounted to Rs. 19 crores as in 1959*, the actual inflow in 1960 is expected to have been larger than in the previous year when utilisation of approvals was rather slow. Every effort is being made to foster foreign investment in the private sector. A clarification was issued during the year regarding Government's general attitude towards foreign capital and it was also announced that Government would have a flexible approach to foreign collaboration schemes within the overall framework of the Plan. The double taxation avoidance agreements with Denmark, Norway, Japan and West Germany were ratified. The Indian Investment Centre for promoting foreign, investments in India (referred to in the last Report) has started functioning in Delhi. Finally, some concessions to foreign investors, particularly in respect of corporate taxes, were made in the 1961-62 budget.

34. The Second Plan estimated import payments to average Rs. 868 crores per year; actually they amounted to Rs. 1,074 crores per annum during the period 1956-61. As a result, though export earnings averaging at Rs. 612 crores were higher than the Plan estimate of Rs. 593 crores and official donations and capital receipts were significantly larger than expected, the foreign exchange reserves suffered a draft of Rs. 598 crores or nearly thrice the amount planned for. In the three months April-June 1961, the reserves declined further by Rs. 22 crores to reach a low of Rs. 282 crores at the end of June 1961. With maintenance imports alone expected to average Rs. 730 crores per annum in the Third Plan period and with rising payments on invisibles taking the place of the net receipts on this account, India's balance of payments position has now become more vulnerable than ever before. Not only is the new investment involving imported capital goods more than ever dependent on foreign assistance, but external aid has become necessary also for financing an adequate level of maintenance imports, the demand for which inescapably rises with the growing level of general economic activity in the country. This, however, is the shorter-term prospect. In the longer run, as the process of planned development enlarges the productive capacity of the country, the economy will have acquired the ability to meet current needs

*The 1959 figure is exclusive of certain approvals which merely involved transfer of existing non-resident investment from one unit to another.

as well as to fulfil obligations in respect of the foreign assistance received earlier. Already, some of the newer export industries like engineering goods appear to have significant potential markets abroad and hold promise of adding to export receipts. Recent developments in the field of oil exploration in the country may also lead to some relief in external payments.

Monetary and Credit Policy

35. The developments in the Indian economy, set out in the foregoing paragraphs, have *inter alia* highlighted the further worsening of the price situation in the early months of the year under review as well as the growing pressure of monetary demand resulting in a much smaller contraction of bank credit in the slack season of 1960 than in the previous two slack seasons and in an over-extended position of the banking system during the trough of the slack season. The need for a more stringent policy of credit restraint by the Bank was clearly indicated. The additional reserve requirement, introduced in March 1960 and reinforced in May, exerted considerable pressure on bank liquidity. Excluding the State Bank, whose deposits declined as a result mainly of the new arrangements in respect of P.L. 480 deposits, the free reserves (i.e. cash plus excess reserves) of the other scheduled banks declined from Rs. 64 crores on March 18, 1960 to Rs. 39.5 crores on September 16, 1960, the ratio of free reserves to deposit liabilities declining from 4.9 per cent to 2.9 per cent. During the same period, their investment-deposit ratio declined from 29.1 per cent to 27.7 per cent. However, the pressure on liquidity failed to make any significant impact on the level of bank credit, which continued to remain high through the slack season mainly because of easy access to comparatively low cost borrowing from the Reserve Bank; scheduled banks' outstanding borrowings in September 1960 at Rs. 33 crores were appreciably higher than a year ago (Rs. 3 crores). The net effect of the additional reserve requirement on bank credit was thus not appreciable. The situation indicated the need for limiting the banks' access to the Reserve Bank on some basis. The courses open to the Bank for this purpose were to fix ceilings for borrowings by banks or to raise the cost of such borrowings or to adopt a combination of both methods. It was considered best in the circumstances to introduce a system of slab rates under which scheduled banks' access to the Bank was regulated under a three-tier structure of rates related to the extent of borrowing. Accordingly, a new set of general credit measures was announced on September 21, 1960. Effective October 1, 1960, each scheduled bank was assigned for purposes of its borrowing at the Bank rate, a quota for each quarter, equal to half of the average amount of

statutory reserves required. to be maintained by it during the previous quarter in terms of Section 42(1) of the Reserve Bank of India Act. Any borrowing over this level upto 200 per cent of the quota would bear a rate of 1 per cent above the Bank rate: borrowings in excess of 200 per cent of the quota would bear a rate of 2 per cent above the Bank rate. In view of this general restrictive measure, separate ceilings for borrowings by individual banks under the Bill Market Scheme were removed. The Bank also directed that, with effect from October 1, all scheduled banks should adhere to a minimum lending rate of 5 per cent on *all* advances except those to other banks and bank employees; in addition, all banks were required to raise their average lending rate at least by ½ per cent, the base period for comparison being the year ended June 30, 1960. This measure was adopted to ensure that the higher cost of borrowing from the Reserve Bank was transmitted to the ultimate borrower so as to mitigate the demand for bank credit. Simultaneously, with a view to preventing possible circumvention by banks of the directive regarding higher rates on lending by offering higher rates on short-term deposits, the Bank also fixed a ceiling of 2 per cent in respect of deposits accepted by scheduled banks from the public repayable on notice of or on the expiry of a period not exceeding 21 days.

36.. The system of slab rates combines the features of direct limitation on borrowing and raising the cost of borrowing. It provided a technique whereby the objectives of credit restraint could be attained without too large an adjustment in Government security prices.

37. While this move towards raising the cost of credit was taken with a view to imposing a degree of discipline on both banks and their borrowers, it was not the intention of the Bank to restrict the availability of credit for the legitimate needs of industry and trade. In fact the Bank broadened the credit base by removing the ceilings on advances under the Bill Market Scheme. Further, with the approach of the busy season of 1960-61 and in the face of a slackening in the rate of growth of deposits, the Bank withdrew the additional reserve requirement in two stages. On November 11, the directive issued on May 5, 1960 regarding the maintenance of additional statutory reserves was relaxed. Further impounding of the increase in liabilities over the level as on November 11 was suspended; also about half of the reserves already impounded were released by a reduction in the additional reserve requirement to 25 per cent of the increase since March 11, 1960. The reserves thus released amounted to Rs. 13 crores. Subsequently, the additional reserve requirement was revoked altogether, with effect from January 13,

1961, releasing a further amount of Rs. 13 crores. Effective February 22, 1961, the peg on the 21 days' deposit rate was also withdrawn to enable banks to readjust the pattern of interest rates in the context of a slowing down of the rate of growth of deposits.

38. In the field of selective credit controls which, as mentioned earlier, were adapted to changing situations, the control on advances against paddy and rice was relaxed and controls on advances against wheat and sugar were totally withdrawn. As against this, in view of the sharp rise in the prices of raw jute and jute goods, both commodities were, for the first time, brought under the purview of selective credit controls in December 1960, although towards the close of the year the control was relaxed as a sequel to a fall in prices.

39. In view of the generally comfortable supply position of wheat and the assurance of additional wheat supplies under the P.L. 480 Agreement of May 1960, the Bank liberalised the control on wheat advances on August 20, 1960. The overall ceiling limits for individual banks from September 1960 in respect of wheat advances were fixed at 100 per cent of the levels actually maintained in 1958 and the separate ceiling limits on advances against wheat in respect of offices and branches of banks in the States of the Punjab, Himachal Pradesh, Delhi and Jammu and Kashmir were abolished. On February 8, 1961 the minimum margins on advances against foodgrains were reduced from 40 per cent to 35 per cent and the ceilings on advances against paddy and rice were raised to 110 per cent of the permitted levels in 1960 in respect of all States excepting Andhra Pradesh. With the creation of a new food zone comprising Madhya Pradesh, Maharashtra and Gujarat, the separate ceilings in respect of advances against paddy and rice for Madhya Pradesh were abolished. Also, in order to ensure greater flexibility, the permissible levels for advances against foodgrains were fixed for two-month periods instead of on a monthly basis, commencing from March 1961. On May 15, 1961, in the context of a further improvement in the supply and price situation of wheat, the control on advances against wheat was altogether withdrawn.

40. In view of the comfortable supply position of sugar and the heavy accumulation of stocks with mills, the margin required in respect of advances against sugar (applicable to traders and to millers in cases where the stocks had left the mills' premises) was reduced on December 9, 1960 from 45 per cent to 25 per cent in order to facilitate larger offtake by trade. Even so, borrowings by traders against sugar rose by only Rs. 6.3 crores between end-

December 1960 and end-March 1961 as compared with Rs. 8.1 crores in the corresponding period of last year. The Bank, therefore, withdrew the margin restriction entirely on April 21, 1961.

41. As already mentioned, the ambit of the selective credit controls was extended during the year to cover raw jute and jute goods, in terms of a directive issued on December 12, 1960. This directive was intended to curb the sharp rise in bank advances against these commodities in the context of rising prices. Over the year ended November 1960, prices of raw jute and jute goods had risen by 72 per cent and 54 per cent, respectively. Advances against raw jute rose from Rs. 11 crores on October 28 to Rs. 14 crores on November 11, 1960; at this level they were 32 per cent above the level a year ago. Between August 1960 and October 1960, advances against jute textiles had risen from Rs. 20 crores to Rs. 24 crores and remained more or less at this level, which was 66 per cent higher than the level a year ago. The control on raw jute was confined to the imposition of a minimum margin of 25 per cent in respect of advances to jute mills and 40 per cent to others. As advances against jute goods had risen more sharply (reflecting a rise in stocks), they were subjected to a minimum margin of 40 per cent as well as to a ceiling limit for each two-month period commencing from January 1961 not exceeding 130 per cent of a bank's average advances in the corresponding two-month period of 1960. Following this directive, the rise in advances against jute textiles was halted; outstanding advances, which had stood at Rs. 22.7 crores in December 1960, declined to Rs. 19.9 crores in June 1961, which was only Rs. 71 *lakhs* higher than those a year ago. On February 24, 1961, with a view to facilitating the financing of exports, the minimum margin in respect of advances against jute goods to established shippers was reduced from 40 per cent to 25 per cent, subject to certain safeguards ensuring the genuineness of the requirements. Subsequently, however, in view of the declining trend of jute goods prices following a slackening in foreign demand, the Bank withdrew on June 23, 1961 the margin requirement of 40 per cent in respect of advances against jute goods, but retained the margin restrictions on advances against raw jute and the ceiling on advances against jute goods.

42. The control on advances against oilseeds was continued, except for a minor modification whereby, effective from February 8, 1961, the permissible levels were re-fixed on a two-monthly basis instead of on a monthly basis.

43. Mention may also be made here of the modifications made in the Bill Market Scheme as applicable to export bills, with a

view to liberalising credit facilities to exporters. The minimum amount of an individual usance promissory note to be lodged with the Reserve Bank as security for advances under the Scheme, which had been originally fixed at Rs. 20,000 and subsequently reduced to Rs. 10.000 in October 1959, was further reduced to Rs. 5,000 in January 1961. The stipulation requiring banks to ensure that the parties concerned either cover the exchange risk or maintain the specified margin in the relative loan accounts has been withdrawn and the matter is now left to the discretion of the banks concerned. Further, bills arising out of the applicant bank's advances against export bills granted at any of its offices have been made eligible for being offered as security for borrowings under the Scheme, provided such borrowings are availed of by the bank concerned at places where the Reserve Bank has an office of the Banking Department. Also, the condition that export bills held by banks as security in the relevant loan accounts intended for conversion into time bills should have a usance of not more than ninety days has been waived, though the usance promissory notes lodged with the Reserve Bank must mature within ninety days. The Scheme as applied to export bills, first introduced in October 1958, and continued upto the end of September 1960, now stands extended by another year upto the end of September 1961.

44. The impact of the various credit control measures introduced during the year has been on the whole salutary. Following the initiation of the system of slab rates in October, all scheduled banks raised their lending rates in accordance with the directive and quite a few of them raised their average lending rates by more than ½ per cent. The State Bank of India also raised its lending rates to other banks; this had the effect of preventing circumvention of the directive tightening the terms of accommodation of the Reserve Bank. Further, the move towards dearer money affected interest rates not only in the organised sector but also in the unorganised sector: in Bombay, the Multani shroffs raised their rates from 9-11.25 per cent on October 7 to 12 per cent on October 14. The higher rates did not, however, have any adverse effect on the availability of credit for trade and industry during the busy season of 1960-61, as evidenced by the fact that the seasonal expansion of bank credit in 1960-61 at Rs. 199 crores was even higher than Rs. 189 crores in 1959-60. Scheduled banks' borrowings from the Reserve, Bank of India rose sharply during the greater part of the 1960-61 busy season, the outstanding amount touching Rs. 95 crores at the end of March 1961. As of this date, 41 banks had borrowed from the Bank; of these 28 banks had borrowed at 6 per cent and 6 banks at 5 per cent and the rest at 4 per cent only. The average rate of borrowing for all banks was

5.46 per cent. However, after March 1961, following a reduction in the demand for credit, banks promptly repaid a substantial part of their borrowings, the outstanding level at the end of June 1961 being only Rs. 15 crores which was lower by Rs. 25 crores than that a year ago.

45. The selective credit controls worked with a larger measure of success during the year than in the earlier years, since they were operated in conjunction with general quantitative controls. The compliance by banks with the selective credit control directives continued to be generally satisfactory. Advances against paddy and rice and wheat remained well within the permitted levels; the peak of the adjusted level of advances against paddy and rice at Rs. 12.3 crores in March 1961 was 35 per cent below the permitted levels. In the case of 'other foodgrains', the advances had risen above the permitted levels in the last quarter of 1960, but the excess was temporary and relatively small. The advances against groundnuts were also below the permitted levels except in the period November-January. Advances against shares rose by only Rs. 61 *lakhs* over the year as against a rise of Rs. 11 crores in the previous year, despite the buoyancy in the share markets and the high level of new issue activity during the year. As regards clean advances, their ratio to total advances was 11.7 per cent (adjusted for exemptions) in June 1961, as compared to a permitted ratio of 15.2 per cent. The introduction of the control on advances against raw jute and jute goods on December 12, 1960 had a salutary effect on the level of credit against these items. Ranks' advances against raw jute declined by Rs. 8.2 crores to Rs. 10.2 crores between December 16, 1960 and June 30, 1961 as compared with a decline of Rs. 83 *lakhs* to Rs. 11.8 crores in the corresponding period of 1959-60. During the same period, advances against jute textiles declined by Rs. 3.7 crores to Rs. 19.9 crores against a rise of Rs. 4.8 crores in the previous year; over the year ending June 30, 1961 these advances were higher by only 3.7 per cent.

46. In a developing economy, the flow of credit has to be regulated by the monetary authorities with due regard to the productive credit needs of expanding industry and trade. In this context, the higher cost of credit would have a healthy effect by reducing less urgent demands, by checking undue reliance on bank credit, and by promoting the economical use of resources. There has been a tendency, of late, on the. part of industries to rely more heavily on bank finance for purposes which are normally to be met by self-finance or resort to the capital market; and one factor aiding this process has been the relatively low cost of bank credit. However, in a situation where banks rely increasingly on the central bank to finance their rising volume of business, the

higher cost of bank credit could prove useful in countering inflationary pressure. Higher interest rates would also serve to reduce speculative profits, which depend upon the margin between the rate of increase in prices and cost of credit, and thus act as a check on the use of bank credit for speculative purposes. The higher pattern of interest rates to which the economy is adapting itself should be of assistance in general in promoting savings and restraining less desirable forms of investment.

Retrospect and Prospect

47. The achievement of the Second Five Year Plan which has just ended remains impressive, despite the foreign exchange crisis early in its course, the vicissitudes of nature's bounty and a steady rise in prices throughout the period. It is true that not all targets have been fulfilled, but commendable advance on a wide front has been attained in production and standards of living and welfare services and in preparing the groundwork for further advance in the Third Plan. In spite of the vagaries of the monsoon and the inadequacies of organisation, agricultural production went up by 16 per cent over the Plan period and the output of foodgrains by 20 per cent, though the output of 1960-61 is expected to fall short of the target of 80 million tons by 2 million tons. Industrial production made an impressive advance of 40 per cent. National income at constant prices is estimated to have risen by 19.6 per cent, as against a rise of 18.4 per cent over the First Plan period. Plan outlay at Rs. 4,600 crores was Rs. 100 crores higher than the revised target, though Rs. 200 crores below the original target; allowing for the rise in prices, investment in real terms shows a greater short-fall in relation to the target. On the other side of the medal, exports were stagnant, net invisible income was rapidly on the decline, and balance of payments deficit widened considerably resulting in a fall of Rs. 600 crores in foreign exchange reserves, which was thrice the figure originally estimated notwithstanding the fact that foreign aid was far in excess of the original provision. The pressure of aggregate demand in the economy was intensified and largely contributed to the rise of about 30 per cent in the price level over the five-year period. On balance, there has been over the Plan period a definite advance in terms of aggregates but the net improvement as measured by increase in per capita national income has been modest owing to the growth in population.

48. The assistance of friendly countries abroad and of the International Bank for Reconstruction and Development, which has been a rallying point for countries willing to assist, enabled the Second Plan to be completed, albeit, after some pruning about half way. For the Thiid Plan, which has just begun, substantial

foreign assistance to the tune of roughly $2 billion has been promised for the first two years of the Plan. This enables us to concentrate more on the internal problems connected with the Plan, of mobilising resources, of strengthening the organisational set up, and of stimulating exports.

49. The Third Plan envisages over the five years an aggregate investment of Rs. 10,400 crores, an increase in the ratio of investment to national income from 11 per cent in the Second Plan to 14-15 per cent in the Third Plan, an increase in the ratio of savings to national income from about 8.5 per cent to nearly 11.5 per cent, a substantial rise in agricultural and industrial production and on increase in national income of about 30 per cent. With additional taxation of Rs. 1,710 crores and the combined total of market borrowings and small savings at Rs. 1,400 crores, the deficit financing required has been reduced to the level of Rs. 550 crores, which is expected to be non-inflationary, if the output targets are realised.

50. The Third Plan demands for its success a high degree of discipline in the fiscal and monetary fields with a view to achieving a substantial increase in the rate of domestic savings. The problems of mobilising resources as of achieving an adequate advance through effective implementation of the programmes of development are largely organisational. They call for a considerable toning up of administrative and managerial standards, particularly with the growing share of public enterprises.

51. Notwithstanding the magnitude of the foreign aid promised, it would be necessary to organise a massive step-up in efforts to promote exports to pay for at least the maintenance needs of the economy. Appropriate incentives may be required for the purpose but they will be of little avail unless the cost-price structure is kept under control, as the price of exports is the key to their competitiveness in a phase of increasingly intense competition in the world markets.

52. In the task of maintaining stability and discipline during development, the role of monetary policy with which the Bank is intimately concerned will be important. With continuing investment and rising output, the demand for bank credit in the Third Plan would rise continuously; so, too, would the pressures on prices. The Reserve Bank's monetary. policy would, therefore, have to continue to be a two-pronged one, viz., of ensuring an adequate flow of credit to meet the genuine requirements of agriculture, industry and trade and checking speculative excesses with their inflationary overtones. In other words, the two-directional objective of monetary policy is to maintain the momentum of

development and at the same time to avoid the pace of development from outstripping the capacity of the economy to sustain it. In this context, there is need further to strengthen the institutional machinery of agricultural credit and finance for industrial rehabilitation, expansion and development, which the Bank has promoted, as well as to consolidate and strengthen the banking system through geographical and functional expansion of its scope, for undertaking the larger tasks that lie ahead.

Banking Legislation

53. The liquidation of the Palai Central Bank focussed attention on the weak spots of the banking system. Accordingly, the banking law was amended during the year under review (1) further to expedite liquidation proceedings of banks, (2) to assure small depositors of the safety of their funds by making them preferential creditors, (3) to provide for the declaration of a moratorium to facilitate the process of compulsory reconstruction or amalgamation of banks and (4) to provide for compulsory amalgamation of banks with other banks including the State Bank of India or its subsidiaries. The banking law was also amended to allow banks to maintain secrecy regarding their inner reserves in matters relating to industrial disputes.

The Banking Companies (Amendment) Act, 1960

54. The Banking Companies (Amendment) Act, 1960, which came into force on August 26, 1960, is intended to protect Banking companies from being compelled, by the authorities constituted under the Industrial Disputes Act, to disclose information and documents of a confidential nature relating to secret reserves, provisions for bad and doubtful debts, etc. Instead, the above-mentioned authorities have been empowered, under the amendment Act, to refer the question to the Reserve Bank, and the Reserve Bank has been authorised to furnish to the authorities, after taking into account principles of sound banking and all relevant circumstances, a certificate stating the amount of such reserves which the authorities may take into account for purposes of the proceedings under the Industrial Disputes Act.

The Banking Companies (Second Amendment) Act, 1960

55. The main object of the Banking Companies (Second Amendment) Act, 1960, which came into force on September 19, 1960, is to facilitate expeditious payments to the depositors of banks in liquidation, and also to vest the Central Government and the Bank with additional powers to rehabilitate banks in difficulties. The amending Act requires that preferential payments to secured creditors and others entitled to preferential treatment, which

were mainly responsible for the delay in the payment to depositors of banks in liquidation, should be made or provided for within three months from the date of the winding-up order, or in the case of banks which went into liquidation prior to the commencement of the amending Act, within three months from the date of commencement of the Act. According to the amendment Act, after the preferential payments have been made or adequately provided for within the three-month period specified above, every savings bank depositor should be paid the balance to his credit, subject to a maximum of Rs. 250 and thereafter every other depositor should be paid Rs. 250 or the balance to his credit, whichever is less, in priority over all other debts. The amount upto which a savings bank depositor enjoyed a preferential claim prior to this amendment was Rs. 100, while no preferential treatment was accorded to other depositors. The amendment Act further provides for the appointment of an *individual* as official liquidator, if the Reserve Bank so desires in its application to the High Court, with a view to expediting the realisation of assets and their distribution; prior to the amendment, the official liquidator could be only the Reserve Bank, the State Bank of India or any other bank notified by the Central Government in this behalf. The amendment Act also provides for the grant by the Central Government, on an application from the Reserve Bank, of a moratorium in respect of a banking company upto a period of six months. In the moratorium period, the Reserve Bank may prepare a scheme for the reconstruction of a bank or its amalgamation with another bank and submit it to the Central Government who may sanction the scheme with modifications, if necessary. The scheme as sanctioned, which would come into force on the date specified by the Central Government, would be' binding on the banking company or companies concerned and also on all the members and creditors.

The Banking Companies (Amendment) Ordinance, 1961

56. The Banking Companies (Amendment) Ordinance, 1961 was promulgated by the President of India on February 4, 1961, mainly to clarify and supplement the provisions of the Banking Companies Act relating to compulsory reconstruction or amalgamation of banks. The Ordinance enabled the compulsory amalgamation of a banking company with the State Bank of India or its subsidiaries; prior to the amendment, such amalgamation was possible only with another banking company. The amending Ordinance also enabled amalgamation of more than two banking companies by a single scheme of amalgamation. It also laid down detailed provisions relating to conditions of service of employees of banks subject to reconstruction or amalgamation. The Ordinance was replaced by the Banking

Companies (Amendment) Act, 1961, which was passed by the Parliament and received the President's assent on March 24, 1961.

Size of Capital Funds

57. Mention may be made here of two proposals formulated by the Reserve Bank, one for strengthening the capital funds of banks and the other for increasing the cash reserves and liquidity requirements of banks. Briefly, the first proposal seeks to establish the relationship to deposits as the criterion of minimum adequacy of a bank's capital funds, and also to increase the minimum capital required for setting up a banking company. Under the stimulus of the First and Second Plans, Indian banks have experienced vigorous expansion, both of deposits and of bank credit. The pattern of distribution of bank credit has also undergone a change for there has been a growing participation of banks in industrial finance; banks are now venturing into new lines of activity such as term-lending to industry and underwriting of shares involving a greater risk element. At the same time, despite a substantial increase in the profits of banks in the past decade, the growth of capital and reserves has been slow, especially in relation to the growth of deposits. This is a phenomenon which has been observed in most countries, but in India strengthening of the capital base has received less attention than in many other countries in comparable situation. The present provisions in the Banking Companies Act with regard to minimum paid-up capital and reserves, which were introduced in 1949 with the object of raising the standard of performance of a large number of sub-marginal banking units, are unsatisfactory, in as much as the reserves of banks are linked to paid-up capital and bear no relation to the growth of liabilities and assets of banks. Although a bank's soundness is by no means to be measured solely by the proportion which its capital funds form to its deposit liabilities, this proportion is an important factor in assessing a bank's strength and a minimum proportion should be incorporated in the banking statute as a relevant determinant (a) of distribution of banking profits and (b) of policy regarding enlargement of capital, consistently with capacity to ensure a reasonable return on capital in the future.

Cash Reserves and Liquidity Ratio

58. The other proposal seeks (i) to relate the cash reserve requirements as well as the liquidity ratio of banks to total deposits,* instead of to total liabilities, (ii) to abolish the distinction between demand and time liabilities observed at present in calculating reserve requirements, (iii) to raise somewhat the reserve and liquidity requirements, and (iv) to ensure a raising of the liquidity requirements *pari passu*

*Exclusive. of inter-bank transactions and 'other' liabilities, with every increase in the reserve requirements. These changes are directed to safeguarding the soundness of the banking system through measures to raise the ***minimum*** requirements both in regard to cash reserves and liquid assets, in view of the progressive decline in the cash and liquidity ratios of banks in recent years and the anticipated pressure on these ratios during the Third Plan. The Bank's proposals have been sent to the Indian Banks' Association and the Exchange Banks' Association for comments.

Banking Development

59. The Reserve Bank continued to play a prominent role in the development of the institutional machinery of industrial finance and agricultural credit as well as in the development of commercial banking. In this promotional and developmental role it continued to be closely associated with institutions like the State Bank and Financial Corporations, besides the whole of the co-operative credit structure. The year under review witnessed further progress in all these spheres.

State Bank of India

60. The State Bank of India, in pursuance of its programme of branch expansion as approved by the Reserve Bank and the Central Government, opened 22 new branches during 1960-61 including 2 branches established outside this programme. The total number of branches established by the State Bank since its constitution on July 1, 1955 came to 438. Of these, as many as 359 branches are in rural and semi-urban areas, i.e. in places with a population of 30,000 or less. Following the commencement of the operation of the State Bank of India (Subsidiary Banks) Act, 1959 on September 10, 1959, with a view to extending banking facilities in the rural and semi-urban areas of the territories of the erstwhile Part 'B' States, which are not covered by the branch expansion programme of the State Bank, the subsidiary banks of the State Bank of India in consultation with the Reserve Bank and the State Bank, embarked on a branch expansion programme in the areas of their operation. Under this programme, these banks have so far established 92 new branches. It has been agreed that losses incurred by branches opened by the subsidiary banks under the programme will be met on an agreed basis from the Integration and Development Fund, which was instituted in 1955, in accordance with the provisions of the State Bank of India Act, 1955 to meet the losses of branches opened under the expansion programme of the State Bank. In July 1960, the State Bank appointed a Sub-Committee to appraise the effects of branch expansion that has already taken place and to make suggestions in regard to further expansion by the Bank and its subsidiaries in the next five years. The Sub-

Committee has since submitted its Report and has, inter *alia,* recommended the opening of 300 additional branches in the rural and semi-urban areas during the quinquennium ending June 1965 by the State Bank and its subsidiaries. This recommendation has been accepted by the State Bank. Other recommendations of the Sub-Committee, which are mainly of an administrative nature, are being examined by the State Bank.

Subsidiaries of the State Bank of India

61. In last year's Report, mention was made of the constitution of eight major State-associated banks as subsidiaries of the State Bank in pursuance of the provisions of the State Bank of India (Subsidiary Banks) Act, 1959. The State Bank of India, in consultation with the Reserve Bank, completed during the year the determination of the amounts of compensation payable to the shareholders of the eight banks constituted as its subsidiaries, in accordance with the principles laid down in the First Schedule to the Act. In no case was it found necessary to have recourse to a Tribunal for determining the compensation,

62. Reference was made in the last Report to the action initiated by the State Bank to achieve an integrated banking and treasury system covering the whole of India by 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. During the year, the State Bank of India, with the approval of the Reserve Bank, entered into agency agreements with each of the eight subsidiary banks. These agreements, which have been principally modelled on the lines of the agreement of March 16, 1960 between the Reserve Bank and the State Bank, came into force on October 1, 1960. Under these agreements, the branches of the subsidiary banks will conduct Government business at centres where there are treasuries and sub-treasuries in the areas of their operation and will provide exchange and remittance facilities to the public on behalf of the Reserve Bank and as agents of the State Bank of India. Currency chests are being gradually established at the branches of these banks to enable the banks to perform the agency functions. The remuneration paid by the State Bank of India to the subsidiary banks, at rates fixed under the agreements, will be reimbursed to it by the Reserve Bank.

Clearing Houses

63. Mention may also be make here of the progress made by the Reserve Bank in widening the clearing house facilities as part of its larger programme of extension of banking facilities. At the end of 1960, clearing houses were functioning at 57 centres. In

pursuance of a suggestion made by the Bank to establish clearing houses at 21 additional centres having a population of 1 lakh and over, the State Bank of India and its subsidiaries established clearing houses at 5 centres, thus bringing the total number of clearing houses functioning at the end of June 1961 to 62, of which 7 were managed by the Reserve Bank, 49 by the State Bank of India, 4 by the subsidiaries of the State Bank and the remaining two by other banks.

Industrial Finance Corporation of India

64. With a view to enlarging and diversifying the assistance provided by the Industrial Finance Corporation, the Industrial Finance Corporation Act, 1948 was amended in December 1960. The amendment Act, among other things, extended the powers given to the Corporation regarding the guaranteeing of loans to (1) loans raised by industrial concerns from scheduled banks or State co-operative banks, (ii) diferred payments due from any industrial concerns in connection with the purchase of capital goods within India, (iii) with the prior approval of the Central Government, loans raised in foreign currency by industrial concerns from institutions outside India. It also empowered the Corporation to subscribe directly to the stocks or shares of any industrial concern which it was so far prohibited from doing, and also to convert, at its option, the loans granted or debentures subscribed to by it into stocks or shares of the concern.

65. Loans and advances sanctioned by the Industrial Finance Corporation of India during 1960-61 touched a new record of Rs. 21.21 crores, as compared to Rs. 17.92 crores sanctioned in 1959-60. The Corporation sanctioned during the year loans in foreign currencies (equivalent to Rs. 4.30 crores) for the first time since its inception in July 1948. At the end of June 1961, the outstanding amount of loans and advances was Rs. 42.35 crores. The Corporation approved 9 applications for Rs. 13.29 crores for guaranteeing deferred payments in respect of imported and indigenous capital goods and also agreed to underwrite 12 issues of ordinary and preference shares for a total of Rs. 2.32 crores. The Corporation's outstanding borrowings from the Central Government in terms of Section 21(4) of the Industrial Finance Corporation Act amounted to Rs. 15.25 crores at the end of June 1961 as against Rs. 13.25 crores at the end of June 1960. Since its inception in July 1948 upto the end of June 1961, the Corporation had sanctioned loans for a total of Rs. 105.82 crores, of which Rs. 57.35 crores were disbursed.

State Financial Corporations

66. Loans and advances of the State Financial Corporations rose by Rs. 3.59 crores during 1960-61, as compared to Rs. 2.52 crores in 1959-60, the total amount of loans and advances outstanding at the end of June 1961 being Rs. 18.05 crores. Three State Financial Corporations, namely, Assam, Andhra Pradesh and Punjab raised additional resources through the issue of bonds for a sum of Rs. 1.50 crores. During the year, the State Financial Corporations of Rajasthan, Kerala, Assam and Gujarat were appointed as agents of their respective State Governments for routing the concessional finance provided by Government to small-scale industries under the State Aid to Industries Act. Such agency arrangements are now in operation in eight out of the fifteen States. In terms of Section 37A of the State Financial Corporations Act, 1951, the Reserve Bank of India inspected during the year, for the second time, two Corporations viz., Assam and Bihar. The Bank also inspected, for the first time, the Mysore Corporation, which was established at the end of March 1959. It may be noted that the Bank has, upto March 1961, inspected seven Corporations for the second time. Since their inception upto the end of March 1961, the State Financial Corporations sanctioned loans and advances for an aggregate amount of Rs. 36.2 crores, of which Rs. 22.2 crores or over three-fifths were disbursed.

State Bank's Credit Facilities to Small-scale Industries

67. The State Bank of India's 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, made further progress during 1960-61. The number of units assisted and the amount of credit limits sanctioned at all centres of the Bank increased from 1963 and Rs. 5.83 crores, respectively, at the end of June 1960 to 2644 and Rs. 9.19 crores at the end of June 1961. The advances outstanding stood substantially higher at Rs. 4.45 crores as on June 30, 1961, as against Rs. 2.45 crores as on June 30, 1960 and Rs. 1.26 crores as on June 30, 1959. As in the preceding years, the bulk of the amounts sanctioned and outstanding was in respect of the 35 centres which have been selected for more intensive operations under the scheme. During the year, the State Bank also started the financing of industrial cooperatives and as on March 31, 1961 it had sanctioned credit limits amounting to Rs. 1.60 lakhs to eight industrial co-operatives. In addition to the credit facilities provided by the State Bank, its eight subsidiary banks also commenced granting credit facilities to small-scale industries in their respective *areas of operation, and sanctioned credit limits aggregating

Rs. 3.70 crores in respect of 484 units, the advances outstanding at the end of March 1961 being Rs. 1.69 crores.

Guarantee for Loans to Small-scale Industries

68. In the last Report, mention was made of the Government of India Scheme for the guarantee of loans granted to small-scale industries for purposes of working capital or acquisition of fixed assets and equipment, with a view to providing some measure of protection to the lending institutions against possible losses on such advances. The Guarantee Scheme provides for the sharing of losses between the lending institutions and the Government of India, subject to the condition that the maximum amount recoverable against the guarantee in respect of any one advance will not exceed Rs. 1 lakh. The Reserve Bank has been entrusted with the 'administration of the Scheme and has been designated as the "Guarantee Organisation". The Scheme, which was brought into force on July 1, 1960, initially covered 22 districts but its area of operation was extended during the year to 30 additional districts, bringing the total number of districts covered to 52; these include all the 35 centres which have been selected for intensive operations under the State Bank's scheme for the provision of credit facilities to small-scale industries.

69. The Guarantee Organisation began receiving applications for 'guarantee towards the end of September 1960. Upto the end of June 1961. it had received 1035 applications from 13 specified credit institutions for sums aggregating Rs. 3.45 crores, of which guarantees were issued in respect of 894 applications for Rs. 2.81 crores. Certain modifications were also introduced in the Scheme during the year, with a view to facilitating its working. Thus, in order to enable credit institutions, especially the State Financial Corporations, which usually grant loans for periods in excess of 7 years to take full advantage of the Scheme, advances for periods exceeding 7 years have also been made eligible for guarantee; however, the duration of the guarantee would not extend beyond 7 years from the date of the first disbursal of the advance. Further, in view of the difficulties experienced in submitting affidavits, certificates from credit institutions have been made acceptable for determining whether the concern is a small-scale industrial unit for purposes of the Scheme. The Scheme has also been extended since August 1961 to cover "risk participation arrangement'*. Under the original Scheme, advances granted by banks and financial institutions, other than those specified under the Scheme, were eligible for guarantee facilities only if a specified credit institution participated in such advances to the extent of not less than -25 per cent. With a view to liberalising the working of the "participation arrangement", particularly in the case of

co-operative institutions, it has now been decided, as an alternative, to provide for risk participation under which the specified credit institution need not participate in advances but should undertake to share the resultant losses, if any.

70. In view of the present paucity of data on small-scale industries, the question of collecting statistics relating to the financial and other aspects of the working of small-scale industries has been engaging the attention of the Bank for sometime now. A survey of the economic and technical aspects of small-scale engineering industries in the city of Howrah was recently undertaken by the Bank, in association with the Jadavpur University, Calcutta. The field investigation in connection with this Survey has already been completed and the data collected are being processed and analysed. The Bank is examining the scope for similar region&l economic surveys of small-scale industries in consultation with the Union Government. Steps are also being taken to compile data relating to the financial structure and working results of the small and medium-sized industrial units financed by the State Financial Corporations.

Refinance Corporation for Industry

71. With a view to enlarging the scope of its activities and imparting flexibility to its operations, the Refinance Corporation for Industry* introduced during the year some important operational changes in its scheme of refinance, broadly in line with the proposals formulated by it last year (referred to in the 1959-60 Report). Thus, the refinancing facilities, which hitherto were confined to 15 member banks have now been extended to 43 additional banks, 15 State Financial Corporations† and 3 State co-operative banks, without requiring them to become shareholders of the Corporation. The requirement that the financing institutions should maintain a minimum spread of $1\frac{1}{2}$ per cent between the rate at which they borrow from the Corporation (namely, 5 per cent) and the rate at which they lend, has been removed, thereby giving the financing institutions freedom to charge interest rates which they consider appropriate, subject to review by the Corporation. The list of industries eligible for refinance loans has also been widened to include industries other than those listed for development in the private sector in the Second and subsequent Five-Year Plans. Further, the Corporation has decided to consider, in exceptional cases, loans for a longer period upto

*Effective from March 28, 1961 the Corporation became a public limited company in terms of the new Section 43A introduced by the Companies (Amendment) Act, 1960.

†Including the Madras Industrial Investment Corporation Ltd., which functions on the lines of a State Financial Corporation.

10 years (as against 3-7 years hitherto) and also loans to industrial units with capital and reserves above Rs. 2½ crores. Lastly, the Corporation has decided to refinance loans made to small-scale industries, provided such loans are eligible under the refinance scheme and are guaranteed under the Government of India Scheme for the guarantee of advances to small-scale industries.

72. The Refinance Corporation, aided by the changes just mentioned, made substantial progress in its loan operations during 1960-61. It sanctioned during the year 41 applications for Rs. 6.90 crores, as against 8 applications for Rs. 1.22 crores sanctioned in the previous year. The total amount disbursed was also higher at Rs. 2.1 crores as compared to Rs. 0.86 crore in 1959-60. Among the industries which benefited from the assistance were mechanical engineering, cotton textiles, photographic paper, electrical engineering, sugar manufacturing, industrial gases, plantation and starch and miscellaneous chemicals. Since its inception in June 1958 to end-June 1961, the Corporation received 79 applications for Rs. 14.32 crores, the amount sanctioned being Rs. 11.16 crores*, of which Rs. 3.54 crores were availed of.

The Industrial Credit and Investment corporation of India

73. During 1960, there was a further marked expansion in the activities of the Industrial Credit and Investment Corporation of India. The Corporation approved during 1960 applications for total assistance of Rs. 13.43 crores as compared to Rs. 8.41 crores during 1959. The total financial assistance sanctioned by the Corporation since its inception in 1955 upto the end of 1960 amounted to Rs. 31.41 crores, of which Rs. 12.46 crores were disbursed. Of the Rs. 31.41 crores sanctioned, Rs. 19.18 crores or 61 per cent were in the form of loans and guarantees, Rs. 9.67 crores were by way of under-writing of ordinary and preference shares and debentures and the balance of Rs. 2.56 crores in the form of direct subscription to ordinary and preference shares. Of the Rs. 19.18 crores sanctioned by way of loans and guarantees, the share of foreign currency loans was Rs. 12.63 crores or 66 per cent. The Corporation further augmented its foreign exchange resources by procuring from the World Bank a *third* line of credit of U.S. $20 million (Rs. 9.52 crores). the first two of U.S. $10 million each having been obtained in 1955 and 1959. A loan of U.S. $5 million (Rs. 2.38 crores) has also been sanctioned to the Corporation by the U.S. Development Loan Fund.

*Of this, applications for Rs. 53 lakhs were withdrawn by the applicant financial institutions.

Co-operative Development Policy

74. Over the past few years, sustained efforts have been made to raise agricultural production as well as productivity through a variety of measures including land improvement, extension of irrigation facilities, distribution of seeds, fertilisers and pesticides, new methods of cultivation, and greater availability of co-operative credit at concessional rates for various agricultural purposes. An important development this year was the launching of a new integrated scheme, known as the "Intensive Agricultural District Programme", designed to achieve an immediate increase in food production in agriculturally favourable areas by demonstrating the most effective ways of increasing production through intensive use of human and material resources. Under this Programme, which is to be spread over a period of five years beginning from 1960-61, an intensive effort would be made to approach farmers through co-operatives and *panchayats*, in order to promote the adoption of a minimum combination of improved practices by making available credit, seeds, manures etc. About 20 per cent of the cultivators in the districts covered by the Scheme are expected to participate in the programme in the first year, and the proportion is expected to rise to 65 per cent in the fifth year. In 1960-61, the Programme was initiated in one district each in seven States, namely, Andhra Pradesh, Bihar, Uttar Pradesh, Punjab, Rajasthan, Madhya Pradesh and Madras and it is proposed to cover one district each in the remaining States during the course of the Third Plan.

75. In order to review the progress of the "Intensive Agricultural District Programme" and take decisions on policy matters, an inter-Ministry Committee, consisting of the Secretaries or senior representatives of the Departments concerned and representatives of the Planning Commission and the Reserve Bank of India has been set up. The Reserve Bank is also represented on all the Co-ordination Committees, which have been set up at the State and district levels. A team of officers of the Agricultural Credit Department of the Bank visited all the seven districts where the Programme has been introduced to assess the position of co-operative credit and marketing, to review the progress achieved, and to make appropriate suggestions for strengthening the structure and for d&eloping a general pattern of lending and recovery of loans under the Programme. The Bank has also sanctioned special credit limits under the Scheme to central co-operative banks in four of the seven districts.

76. In August 1960, the Government of India set up a Working Group to consider the proposals of the States and Union Territories regarding co-operative development under the Third Five Year Plan and the annual plans for 1961-62. As in previous years, the main

features of the schemes for co-operative development for 1961-62 drawn up by the State Governments related to State participation in certain categories of co-operative institutions, revitalisation and reorganisation 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 co-operative institutions.

77. The broad policies in regard to the introduction of co-operative farming in the country were formulated by the Government of India following the Report of the Working Group on Co-operative Farming appointed by the Government in June 1959. A National Co-operative Farming Advisory Board, on which the Reserve Bank is also represented, has been set up by the Government of India, for planning and promoting the programme of co-operative farming in the country.

78. Mention was made in last year's Report of the appointment by the Government of India in September 1959 of the Committee on Co-operative Credit, which submitted its Report in May 1960. The main recommendations of the Committee, it may be recalled, included the promotion of 'viable' units of co-operative service and business, indirect State participation in the share capital of societies, revision of the standards of credit limits at different levels and liberalisation of the existing standards adopted by the Reserve Bank for sanctioning short-term and medium-term credit limits to co-operative banks. In October 1960, the Government of India conveyed to the State Governments their general acceptance of the recommendations of the Committee. The Reserve Bank conveyed to the Central Government its acceptance, in principle, of the recommendations of the Committee in so far as they related to the Bank. Steps are being taken to work out the appropriate procedures for implementing the relevant recommendations. Meanwhile, in accordance with one of the recommendations of the Committee, the Reserve Bank has decided to relax the condition regarding the mortgage security in respect of medium-term loans of less than Rs. 500 (referred to below).

79. A Conference of the representatives of some central co-operative land mortgage banks and Registrars of co-operative societies was convened by the Reserve Bank of India at Bombay on September 9 and 10, 1960. Apart from problems and operational policies of the central land mortgage banks, such as the need for collecting mortgages before issuing debentures, correlation between the period of debentures and the period of loans, methods of constituting sinking funds and problems of interim finance, the Conference also considered the possibilities of land mortgage banks

financing certain special schemes. This was followed by another meeting at Bangalore in October 1960, which was attended by representatives of the central land mortgage banks and the State Governments of Kerala, Andhra Pradesh and Mysore. At this meeting, two schemes of productive lending through central land mortgage banks, viz. a scheme for financing small rubber plantations in Kerala and a scheme for financing cultivators in the Musi Project Area in Andhra Pradesh were finalised. The Reserve Bank agreed, as a purely experimental measure, to provide financial assistance in connection with these schemes, in the form of contributions out of the National Agricultural Credit (Long-term Operations) Fund; the contributions would be to the extent of 75 per cent to the special development debentures to be floated by the central land mortgage banks.

80. The National Co-operative Development and Warehousing Board, set up in 1956 in terms of the Agricultural Produce (Development and Warehousing) Corporation Act, continued to provide loans and subsidies to State Governments under the co-operative development plans for such purposes as contribution to the share capital of marketing and processing societies, construction of godowns, employment of additional staff etc. The Central Warehousing Corporation established warehouses at 13 centres during the year, bringing the total number of warehouses established by it so far to 40. The State Warehousing Corporations opened 110 warehouses during the year, the aggregate number of warehouses established by them upto the end of June 1961 being 267.

81. The Fifth All-India Conference of Warehousemen was convened by the Central Warehousing Corporation in November 1960 at Indore. This Conference discussed general problems pertaining to warehousing and other ancillary matters, including co-ordination between warehousing corporations and co-operative societies and banks, and measures for attracting producers to the warehouses. One of the decisions of the Conference was to set up Advisory Committees to suggest, among other things, measures for increasing the use of warehouses, especially by producers and to remove difficulties experienced by depositors in obtaining bank credit against pledge of warehouse receipts.

82. It will be recalled that the Reserve Bank instituted in 1956 two National Agricultural funds, namely, the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund, the first for making loans to State Governments for subscribing to the share capital of co-operative credit institutions, medium-term loans to State co-operative banks for agricultural purposes, and contributions to debentures of and

long-term loans to central land mortgage banks, and the second for making medium-term loans to State co-operative banks to enable them to convert under specified circumstances their short-term credit into medium-term credit. In 1960-61, the Reserve Bank sanctioned loans amounting to Rs. 3.75. crores from the Bank's National Agricultural Credit (Long-term Operations) Fund to 12 State Governments to enable them to contribute to the share capital of co-operative credit institutions. Of the total amount sanctioned, Rs. 2.75 crores were availed of by ten State Governments. Gross disbursements out of the above Fund since its inception on February 3, 1956 to June 30, 1961 (including loans to State co-operative banks and central land mortgage banks and the sum utilised for the purchase of rural debentures) totalled Rs. 40 crores; the total amount outstanding in respect of these loans as on June 30, 1961 was Rs. 30 crores. The total amount transferred by the Bank to the credit of this Fund during the same period was Rs. 50 crores. As of June 30, 1961, the amount to the credit of the Bank's National Agricultural Credit (Stabilisation) Fund stood at Rs. 6 crores; this Fund has not been drawn upon so far.

83. In the past decade or so, the Reserve Bank has not only played a major role in expanding and coordinating the credit facilities available to the rural sector, but has itself rendered an increasing measure of financial assistance to the co-operative sector, especially since the initiation in 1955 of the integrated credit scheme as recommended by the Rural Credit Survey Committee.

Financial Accommodation to Co-operative Banks

84. During 1960-61, there was a further increase in the volume of finance made available by the Reserve Bank to State co-operative banks for financing seasonal agricultural operations and marketing of crops. Eighteen State co-operative banks were sanctioned credit limits aggregating Rs. 110.55 crores at the concessional rate of 2 per cent below the Bank rate, as compared to Rs. 93.55 crores sanctioned to 19 State co-operative banks during the previous year; in 1950-51, the credit limits sanctioned amounted to Rs. 7.62 crores. The outstandings of loans from the Reserve Bank to State co-operative banks for financing seasonal agricultural operations and marketing of crops stood at Rs. 100.11 crores at the end of 1960-61, as against Rs. 78.19 crores at the end of 1959-60 and Rs. 56.27 crores at the end of 1958-59. In addition, one State co-operative bank was sanctioned a credit limit of Rs. 1.90 crores at the Bank rate for meeting the working capital requirements of seven co-operative sugar factories, the outstanding amount of the loan at the end of the year being Rs. 1.85 crores. During the year,

eleven State co-operative banks were sanctioned medium-term loans out of the National Agricultural Credit (Long-term Operations) Fund, for agricultural purposes, aggregating Rs. 4.68 crores as against Rs. 4.50 crores sanctioned to seven State co-operative banks in 1959-60. In order to minimise the use of medium-term loans drawn from the Reserve Bank for short-term purposes, the Bank raised the rate of interest on medium-term loans to State co-operative banks for agricultural purposes by ½ per cent, effective November 1, 1960, the rate in force as from that date, namely 2½ per cent, being 1½ per cent below the Bank rate, as against 2 per cent below the Bank rate earlier: of the total medium-term loans of Rs. 4.68 crores sanctioned during the year, Rs. 1.10 crores were sanctioned before November 1, 1960 at 2 per cent below the Bank rate. One of the conditions for the sanction of medium-term loans for agricultural purposes is that loans drawn from the Reserve Bank should be advanced to the ultimate borrowers only against mortgage of land. The Bank has decided to relax this condition in the case of medium-term loans of amounts below Rs. 500 made out of funds drawn from medium-term loans sanctioned by the Reserve Bank. In addition to the medium-term loans for agricultural purposes, the Bank sanctioned to one State co-operative bank a medium-term loan of Rs. 10 lakhs for a period of four years at the Bank rate for advancing, through central co-operative banks and societies affiliated to them, loans to small and medium cultivators to enable them to purchase shares in a co-operative sugar factory; this was the first loan sanctioned by the Bank under its scheme of financing agriculturists for this purpose announced in January 1957. The outstandings of medium-term loans stood at Rs. 8.81 crores at the end of 1960-61, as against Rs. 6.71 crores at the end of 1959-60 and only Rs. 22 lakhs at the end of 1954-55.

85. As in the previous years, the Reserve Bank continued to subscribe to the debentures floated by central land mortgage banks, besides giving advice in regard to the terms and timing of such floatations. During 1960-61, eight central land mortgage banks floated *ordinary* debentures for an aggregate amount of Rs. 9.97 crores, the period of maturity varying from 8 to 20 years. The Reserve Bank's subscriptions to these debentures amounted to Rs. 23 lakhs. The Reserve Bank also continued to contribute to the *rural* debentures issued by central land mortgage banks; its contribution, as in the previous year, was slightly more than the subscriptions received from the public, the proportion beiig *8 : 7.* During the year, the central land mortgage banks of Andhra, Madras, Gujarat, Orissa, Mysore and Maharashtra issued rural debentures of the total value of Rs. 1.55 crores. One of these series of debentures is still on tap, and the contribution

by the Reserve Bank to four other debentures had also not been made as at the end of June 1961. The contribution to rural debentures made by the Reserve Bank so far during the year, i.e. up to end-June 1961 (including Rs. 8 lakhs for rural debentures floated in 1959-60) amounted to Rs. 27 lakhs. The debentures taken up by the Reserve Bank during the year carried interest at 4 per cent, while the rate offered to the public was higher, varying from 4½ per cent to 5 per cent.

86. Further progress was made during the year in implementing the Reserve Bank's Scheme of handloom finance, introduced in April 1957. The Ad Hoc Advisory Committee on Handloom Finance, appointed in December 1959, held its first meeting in September 1960, at which various matters including those relating to the introduction of a pilot scheme in certain districts were discussed. The Committee communicated their recommendations to the respective State Governments and the All-India Handloom Board. Broadly, the objectives of the pilot scheme are to bring within the co-operative fold as large a number of handlooms as possible in the areas selected, to expand their production and marketing activities, to strengthen the share capital structure of the central banks to enable them to provide adequate finance to weavers' societies, to study the organisational problems of weavers' societies, as well as to arrange for supervision and audit, technical assistance etc. Nine States have so far been selected for the intensive implementation of the pilot scheme. Officers of the Bank visited the pilot areas in seven of these States to study the progress made, and their study reports were forwarded to the State Governments concerned. Officers of the Bank also attended the Seminars held by the various State Governments to discuss problems relating to handloom finance. Further, a meeting of the representatives of central co-operative banks, industrial co-operative banks, apex weavers' co-operative societies, Registrars of Co-operative Societies and the Directors of Industries concerned, was held at Bangalore in June 1961 to discuss the difficulties experienced in the implementation of the pilot scheme.

87. During the year, credit limits aggregating Rs. 2.74 crores were sanctioned to twelve State co-operative banks under Section 17(2) (bb) or 4(c) of the Reserve Bank of India Act at the concessional rate of 1½ per cent below the Bank rate for financing the production and marketing activities of weavers' co-operative societies.

88. Credit limits aggregating Rs. 50 *lakhs* were also sanctioned to two handloom weavers' co-operative societies in Madras and Andhra under Section 17(2) (a) or (4) (c) of the Reserve Bank of

India Act at the Bank rate for financing bonafide commercial or trade transactions.

89. The Reserve Bank's Standing Advisory Committee on Agricultural Credit met twice during the year. Some of the important subjects discussed at these meetings were (a) recommendations of the Committee on Co-operative Credit, (b) policy regarding medium-term loans, (c) problems relating to land mortgage banking, (d) co-operative development in Madras and Andhra Pradesh, (e) agency for supervision of primary credit societies and (f) audit classification of co-operative societies.

90. The Report on the field study of urban co-operative banks and their working undertaken by the Agricultural Credit Department in collaboration with the Economic and Statistics Departments (a reference to which was made in last year's Report) was finalised during the year under review and will be published shortly. During the year, the Bank's Agricultural Credit Department was also associated with a study team set up by the Government of Andhra Pradesh to investigate, the problem relating to financing of tobacco cultivation in that State.

Inspection of Co-operative Banks

91. During the year under review, 291 co-operative banks, 6 sugar factories and 103 large-sized credit societies were inspected. Of the 1,420 inspections carried out so far, 80 were in respect of State co-operative banks, 1055 of central co-operative banks, 12 of industrial co-operative banks, 9 of central land mortgage banks, 9 of sugar factories and 255 of miscellaneous societies.

Supervision and Regulation of Banks

Inspection and Supervision of Commercial Banks

92. The strengthening of the banking system and its development on sound lines through supervision and inspection of commercial banks continued to receive the special attention of the Reserve Bank. Sixty-five scheduled banks and 204 non-scheduled banks were inspected during the year under Section 35 of the Banking Companies Act, 1949. In addition, scrutinies of the affairs of thirteen banks were also undertaken, seven for issuing certificates under Section 44(1) of the Banking Companies Act, two for determining the amount of compensation payable in terms of Section 13(2) of the State Bank of India (Subsidiary Banks) Act, two for consideration of their amalgamation with other banks in terms

of Section 45(4) of the Banking Companies Act, and two under the provisions of Section 36A(2) of the Act.

93. The Bank continued to pursue vigorously the rectification of defects observed in the working of banks. Periodical progress reports regarding the action taken for rectifying the defects indicated in the Inspection Reports were called for from 151 banks during the year. At the end of the year, 73 banks were submitting monthly progress reports and 206 banks quarterly progress reports. In some cases, informal discussions were held with the representatives of the banks concerned with a view to bringing pointedly to their notice the more important defects in the working of the institutions concerned and impressing upon them the need to take speedy action for improving their affairs. In cases where the findings of the inspection called for a stricter control over the affairs of the banks, suitable directives were issued to them for compliance. At the end of the year, 57 banks (comprising 20 scheduled and 37 non-scheduled) were working under directions issued under Section 35A of the Banking Companies Act. Moreover, in some cases, observers have also been deputed to attend the directors' meetings and to carry out periodical scrutiny of the current affairs.

94. The total number of banks which held licences at the end of June 1961 was 65 as against 66 a year earlier, the reduction being due to the cancellation of a licence granted to a scheduled bank consequent on the merger of its business in India with another scheduled bank. The deposits of these banks together with the deposits of the State Bank of India and its subsidiaries, which do not require a licence, accounted for about 96 per cent of the total deposits of all scheduled and non-scheduled banks working in India. Licences were refused to 5 banks during the year, bringing the aggregate number of banks to which licences have so far been refused to 138.

Liquidation of Banks

95. During 1960-61, six commercial banks went into liquidation. Of these six, four had their registered offices in Kerala and one each in Madras and Madhya Pradesh. Pour of these banks were ordered to be wound up by the Courts, while the remaining two went into voluntary liquidation.

96. Of the nine commercial banks which went into liquidation in 1959-60 (referred to in the last Report), one was a scheduled bank, viz. the Laxmi Bank which had been ordered towards the close of June 1960 to be wound up by the High Court of Maharashtra, following an application by the Reserve

Bank in this behalf in terms of Section 38 of the Banking Companies Act. The Court Liquidator attached to the Maharashtra High Court was appointed as the Official Liquidator of the bank and liquidation proceedings were in progress at the end of the year. Of the six commercial banks which went into liquidation during the year under review, five were non-scheduled banks and one, a scheduled bank, viz. the Palai Central Bank. The financial position of the Palai Central Bank was found to be vulnerable and in order to safeguard the interest of the depositors, the Reserve Bank moved the Kerala High Court for the winding up of this bank early in August 1960. As the deposits of the Palai Central Bank were sizeable and the depositors spread over a large part of the country, the winding up of this bank caused some concern among the public. On August 8, the Reserve Bank issued a Press Note stating that there was no cause for a banking scare in Kerala and that the Bank would be prepared to grant financial assistance with the utmost expedition to any bank whose affairs were satisfactory. The Reserve Bank also decided to grant advances to banks in Kerala in terms of Section 18(1) (3) of the Reserve Bank of India Act, 1934. Advances actually granted to 5 banks under this Section amounted to Rs. 1.03 crores. Government securities of the value of Rs. 57 lakhs were also purchased from two banks to enable them to augment their cash resources. The closure of the Palai Central Bank affected public confidence to some extent, leading to a run on some banks, though this proved short-lived and was confined to a few specific areas.

97. The total deposits of the six banks which went into liquidation amounted to Rs. 9.94 crores, representing 0.5 per cent of the total deposits of scheduled and non-scheduled banks in India.

Measures taken to Strengthen the Banking Structure

98. The failure of the Laxmi Bank and the Palai Central Bank underlined the urgent need for action to consolidate and strengthen the weaker segments of the banking structure. Although the Reserve Bank had been carrying out inspections of banks and pursuing the rectification of defects observed in their working, it was found that a large number of small and medium-sized banks had still not come up to the eligibility standard required for the grant of a licence under Section 22 of the Banking Companies Act. The existence of a number of weak units with numerous small depositors spread all over the country placed the banking system in a vulnerable position and the refusal of licences to so many banks would have led to undesirable repercussions on the banking system. This emphasised the need for the elimination

of sub-standard and non-viable banking units through a process of amalgamations and mergers. In the absence of statutory provisions for compulsory amalgamation/merger, no significant progress had been made in this direction. It was, therefore, considered necessary to provide statutorily for the compulsory amalgamation of banks. Accordingly, by an amendment to the Banking Companies Act, which came into force in September 1960 (to which a detailed reference has been made in para 55), a new Section 45 was inserted empowering the Bank to formulate, with Government's approval, schemes of reconstruction and amalgamations of banks.

99. An essential preliminary to the framing of a scheme of reconstruction and amalgamation which generally requires a reasonable period of investigation into the affairs of a bank and consultation for bringing about the merger, is the grant of a moratorium. The amendment to the Banking Companies Act mentioned above empowers the Reserve Bank to apply to the Central Government for an order of moratorium in respect of the banking company concerned. The Bank applied to the Central Government for the grant of moratorium in respect of 34 banks upto the end of June 1961, and the Central Government granted the moratorium in all cases. Schemes of amalgamation in respect of 13 banks had already come into force by the end of the year.

100. Detailed mention has already been made (*vide paras* 57 and 58) of the proposals formulated by the Reserve Bank for reinforcing the capital structure as well as the cash reserves and liquidity requirements of banks. Other measures proposed for strengthening the banking structure include a general tightening of the Bank's inspection machinery and the introduction of deposit insurance. The fact that the Reserve Bank has wide powers of control over banks has naturally engendered in the minds of the general public a feeling that there is no danger of any bank failing and therefore that their moneys are quite safe. Although our inspections are not in the nature of audit, and it is not always possible to detect frauds, nevertheless, in view of the wide-spread feeling referred to earlier, it is necessary that we should make our inspection machinery more effective and ensure that, as far as possible, cases of fraud or other malpractices are detected in time. It has, therefore, been decided to introduce an element of surprise in the inspections conducted by the Bank, to inspect each bank at least once a year and the weaker banks more than once, and to inspect a larger number of branches of banks than hitherto. Government have also decided to introduce a scheme of deposit insurance as a measure of protecting the

interests of the depositors and as an aid to banks in mobilising deposits. Necessary legislation for this purpose is expected to be undertaken shortly.

Miscellaneous Matters relating to Banking

101. Nine banks were excluded from the Second Schedule during the year; two banks were ordered to be wound up by the High Courts, six amalgamated with other banks under Section 45 of the Banking Companies Act and the business in India of one bank was merged with another foreign bank. The total number of banks in the Second Schedule at the end of June 1961 was 86.

102. The total number of offices of scheduled banks went up during the year by 203 to 4,263. Of the new offices, 66 were opened at places not formerly served by commercial banks.

103. Only one scheme of amalgamation was sanctioned during the year in terms of Section 44A(4) of the Banking Companies Act, 1949.

104. During the year under review, two meetings of the Implementation Committee on the Indo-Pakistan Moveable Property Agreement and one meeting of the Implementation Committee on Indo-Pakistan Agreement on Banking were held, at which the various issues covered by the two Agreements, such as status of Indian displaced banks in Pakistan, freezing of bank balances of Indian banks, procedure for the transfer of accounts, lockers and safe deposits, repatriation of surplus assets of displaced Indian banks, position of banks working under schemes of arrangement and those in liquidation, etc., were discussed. Further meetings of both the Implementation Committees have since been held in July 1961 and agreement has been arrived at in respect' of some of the issues mentioned above. Regarding the status of displaced banks (referred to in the last Report), the Pakistan Government has agreed that it would issue a notification exempting all displaced Indian banks from the operation of the Evacuee Property Law and declaring them as non-evacuee concerns. In regard to transfer of bank accounts and funds of evacuees from the areas comprising East Punjab and East Punjab States on the Indian side and West Punjab and Bahawalpur State on the Pakistan side, it has been agreed that (after the above-mentioned notification is issued), such transfer would take place as decided under the Banking Agreement already arrived at between the two Governments, Regarding the transfer of lockers and safe

deposits from the two countries, it has been agreed that it would take place simultaneously with the transfer of bank accounts and funds from the above-mentioned areas. A detailed procedure has also been drawn up for the collection of the contents of lockers and safe deposits at Lahore and Delhi and their handing over to the diplomatic representatives of the other country. The date for exchange of lockers and safe deposits and bank accounts and funds has been fixed as September' 30, 1961. As regards certain other areas (viz., Karachi and the former provinces of Sind, Baluchistan, N.W.F.P. and Khairpur State in Pakistan and all areas in India excluding East Punjab, East Punjab States and the territories which, immediately before November 1, 1956, were comprised in the States of Assam, West Bengal, Tripura, Manipur and Jammu and Kashmir), it has been agreed to transfer the accounts in this category on a matching basis and the lists of such accounts prepared on the basis of the applications received have been exchanged between the Central Banks of the two countries and pending their verification, consideration of the detailed procedure for their transfer has been postponed. It has also been agreed that banks in liquidation or working under schemes of arrangement in India which had not taken steps for the payment of their depositors in Pakistan would be pursuaded to apply to the appropriate authorities in Pakistan for getting schemes sanctioned for their Pakistani branches or for making arrangements for the liquidation of their affairs in Pakistan as early as possible.

Education and Training

105. The Bankers Training College set up in September 1954 under the auspices of the Reserve Bank for imparting training in practical banking to the supervisory staff of commercial banks has so far conducted 33 senior courses at which 882 officers of commercial banks from all over the country received training. The Intermediate Course, which is designed to provide training facilities to sub-managers, accountants, etc. (referred to in the last Report) was commenced in September 1960 and training was imparted to 89 candidates in 4 such courses conducted during the year.

106. Mention was made in the last Report of the commencement in July 1960 of the first specialised eight-weeks' Industrial Finance Course for the training of the supervisory staff of the State Financial Corporations and of member banks of the Refinance Corporation for Industry. At this course, 18 candidates drawn from the various State Financial Corporations and member banks of the Refinance Corporation for Industry received training. It has been decided to have normally one such Course every year.

107. Following a suggestion by the Advisory Council of the Bankers Training College that it was necessary to ascertain from time to time, by means of *ad hoc* enquiries, evaluations, seminars etc., whether the existing courses conducted by the College for the training of bank personnel were adequate and whether any modifications were called for in the light of past experience of banks, a seminar was organised by the Reserve Bank early in June 1961, which was presided over by one of the Deputy Governors and in which representatives of all categories of banks from all over the country participated. While the participating banks expressed general appreciation of the training given by the College, several banks offered suggestions on various aspects of the training schemes, which are at present being examined by the Bank.

108. The scheme of training of co-operative personnel, both departmental and institutional, made further progress during 1960-61. At the various courses conducted by the Central Committee for Co-operative Training, 38 senior officers, 243 intermediate level officers, 652 block level co-operative officers, 290 officers for co-operative marketing, 71 officers for land mortgage banking and 12,152 junior co-operative officers were trained during the year. In November 1960, the Government of India set up a Study Team on Co-operative Training to (i) examine the adequacy of the existing training arrangements for co-operative education and training and to suggest measures for making them commensurate with the requirements of co-operative development in the Third Plan, (ii) suggest measures as will ensure active association of non-officials interested in the training programmes, (iii) recommend the administrative set-up necessary for the effective administration and co-ordination of the training programme at various levels and (iv) assess the financial requirements. The Study Team has since submitted its Report to Government.

Accounts and Other Matters

109. During the accounting year ended June 1961, the Bank's income, after making statutory and other provisions, showed an increase of Rs. 4.50 crores to Rs. 52.07 crores, and expenditure, which included the expenses of administration and provision for sundry liabilities and contingencies, of Rs. 2.0 crores to Rs. 9.57 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. 42.50 crores, as against Rs. 40.00 crores in the previous year. The main source of the increase in income during the year was the rise in earnings under interest resulting from increased holdings of rupee securities consequent on purchases from the State Bank of India in accordance with the revised

procedure for the placement of P.L. 480 counterpart funds, and the funding of *ad* hoc Treasury bills for a further amount of Rs. 50 crores in January 1961, in addition to Rs. 150 crores funded in December 1959.

110. As in the previous year, a sum of Rs. 10 crores was transferred to the National Agricultural Credit (Long-term Operations) Fund to maintain the balance in this Fund at a reasonable level and a sum of Rs. 1 crore was contributed to the National Agricultural Credit (Stabilisation) Fund.

111. The increase of Rs. 2.00 crores in expenditure during the year was mainly under the heads 'establishment', 'security printing', 'agency charges', 'remittance of treasure' and other miscellaneous expenditure. The expenditure under establishment rose on account of the opening at Bangalore of an office of the Department of Banking Operations and the expansion of staff particularly in the Issue Department to cope with the increased work in connection with examination and verification of notes. The increase under 'remittance of treasure' was due to larger remittances, consequent on the increase in the number of currency chests and that under 'security printing' to larger indents for note forms. The rise under agency charges reflected the increased turnover of Government transactions and provision made for the payment of arrears of commission payable to the State Bank of India at the revised rates retrospectively from April 1960, in terms of the agency agreement concluded with that Bank on March 16. 1960.

Auditors

112. The Accounts of the Bank have been audited by Messrs S. B. Billimoria and Co. of Bombay, Messrs. P. K.Ghosh and Co. of Calcutta and Messrs. Sastri and Shah of Madras, who were appointed by the Government of India as auditors of the Bank by Notification No. F 3(66)-BC/60 dated October 11, 1960 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Composition of the Central Board

113. Sarvashd Kasturbhai Lalbhai, Shri Ram, B. M. Birla and C. R. Srinivasan retired as Directors of the Central Board on the expiry of their term of office on January 14, 1961. The vacancies were filled by the Central Government by the nomination of Sarvashri R. G. Saraiya, Mehr Chand Mahajan, B. P. Singh Roy and K. Ramunni Menon, in terms of Section S(l)(b) of the Reserve Bank of India Act, with effect from January 15, 1961. The Board. place on record their high appreciation of the valuable services rendered by the retiring Directors all through their long association with the Reserve Bank.

114. In the Report for 1958-59, mention was made of the creation of two posts of Executive Directors, with effect from July 9, 1959, consequent on the vacation of office by Shri Ram Nath as Deputy Governor of the Bank. A third post of Executive Director was created to cope with the multifarious and increasing responsibilities falling on the Bank in connection with bank amalgamations, inspections and banking legislation and Shri D. R. Joshi, lately Secretary and Treasurer of the State Bank of India, Calcutta, was appointed to this post. Shri Joshi took up his appointment on June 1, 1961.

Local Boards

115. The term of office of the 'Members of all the four Local Boards of the Bank expired in January 1961, and, in accordance with the provisions of Section 9(3) of the Reserve Bank of India Act, the Central Government constituted new Local Boards for the Western. Eastern, Northern and Southern Areas as from January 15, 1961.

Meetings of the Central Board and its Committee

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

Rank's Premises

117. During the year ended June 1961, the construction of Officers' Quarters at Cadell Road, Bombay was completed and the construction of an office building at Lamington Road, Bombay, taken in hand. The construction work of the Bank's new office building in Calcutta and the Co-operative Training Centre at Madras is in progress. Plans for new office buildings of the Bank at Kanpur, Bangalore and Patna are being scrutinised and the construction work of the buildings is expected to commence shortly. The question of providing additional residential accommodation 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 and Changes in Organisation and Management

118. During the year under review, an office of the Department of Banking Operations was opened at Bangalore from July 1, 1960. A regional office of the Agricultural Credit Department at Ahmedabad and sub-regional office at Trivandrum were also opened from June 16, 1961.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1961

ISSUE DEPARTMENT

LIABILITIES	Rs.	nP.	Rs.	nl	ASSETS	Rs.	nP.	Rs.	nP.
Notes held in the Banking Department	44,81,23,221	0 0			4. **Gold Coin** and **Bullion:—**				
					(a) **Held** in India	117,76,02,749	9 7		
Notes in circulation . .	1933,40,80,533	00			*(b)* Held outside India ..	..			
Total Notes issued .,			1978,22,03,754	0	Foreign **Securities**	103,00,89,629	0 6		
					Total of A ..			220,76,92,379	*0 3*
					3. Rupee Coin ..			120,52,46,913	5 5
					Government **of** India Rupee Securities . .			1636,92,64,461	4 2
					Internal Bills of Exchange and other Commercial Paper ..			..	
Total Liabilities ..			1978,22,03,754	0	**Total Assets** ..			1978,22,03,754	00

BANKING DEPARTMENT

LIABILITIES

	Rs.	nP.
Capital paid-up	5,00,00,000	0 0
Reserve Fund	80,00,00,000	0 0
National Agricultural Credit (Long-term Operations) Fund	50,00,00,000	0 0
National Agricultural Credit (Stabilisation) Fund . . . . . , ... ,	6,00,00,000	0 0
Deposits :-		
(u) Government		
(1) Central Government	59,68,32,956	1 0
(2) Other Governments	15,18,03,698	3 4
(*b*) Banks	94,72,93,247	1 5
(c) Others	115,27,27,139	0 7
Bills Payable	31,19,20,963	3 8
Other Liabilities	14,23,89,891	2 7
Total Liabilities	471,29,67,895	31

ASSETS

	Rs.	nP.
Notes	44,81,23,221	00
Rupee Coin	1,33,597	00
Subsidiary Coin	1,61,753	4 6
Bills Purchased and Discounted :-		
(u) Internal		
(*b*) External	..	
(c) Government Treasury Bills ..	35,53,02,823	5 2
Balances held abroad*	10,77,61,687	8 0
Loans and Advances to Governments ..	34,29,69,850	80
Other Loans and Advances	130,41,34,477	4 4
Investments**	189,49,12,548	2 1
Other Assets	25,94,67,936	0 8
Total Assets	471,29,67,895	3 1

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

* Includes Cash and Short-term Securities.

* * Includes £ 250,000 held abroad.

H. V. R. IENGAR,
Governor.

B. VENRATAPPIAH,
Deputy Governor.

M. V. RANGACHARI,
Deputy Governor.

N. D. NANGIA,
Chief Accountant .

Dated July 20, 1961

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED					
	June 30, 1961		June 30, 1960		June 30, 1959	
INCOME	Rs.	nP.	Rs.	nP.	Rs.	nP.
Interest, Discount, Exchange, Commission etc.	52,07,05,659	6 6	47,56,98,191	3 3	47,25,60,478	5 3
EXPENDITURE						
Establishment	4,39,64,597	52	3,99,90,211	06		
Directors' and Local Board Members' fees and expenses	80.415	28	79,157	30	3,78,09,386	14
Auditors' fees	30;OO0	00	22,500	0 0	22,500	60
Rent, Taxes, Insurance, Lighting, etc.	26,07,806	1 1	21,46,682	16	19,29,808	41
Law Charges	79,450	75	47,296	40	1,09,229	73
Postage and Telegraph Charges	3,64,096	8 2	3,44,744	3 0	3,24,117	25
Remittance of Treasure	33,29,148	7 7	20,27,926	6 7	46,24,122	47
Stationery, etc.	10,53,252	4 7	9,61,034	0 3	8,12,072	10
Security Printing (Cheque, 'Note Forms, etc.)	1,74,51,898	0 5	1,19,78,666	1 9	1,14,98,408	34
Depreciation and Repairs to Bank Property	53,54,407	6 7	46,33,013	6 8	23,63,393	19
Agency Charges	1,75,17,517	5 9	1,01,12,875	9 5	1,00,28,088	37
Contributions to Staff and Superannuation Funds	7,32,000	0 0	7,32,000	0 0	4,63,000	00
Miscellaneous Expenses	3140,173	13	26,09,481	1 0	24,83,111	06
Net available balance	42,50,00,895	5 0	40,00,12,602	4 9	40,00,22,721	8 7
Total	52,07,05,659	6 6	47,56,98,191	3 3	47,25,60,478	5 3

PROFIT AND LOSS ACCOUNT-Continued

	FOR THE YEAR ENDED					
	June 30, 1961		June 30, 1960		June 30, 1959	
	Rs.	**nP.**	Rs.	nP.	Rs.	nP.
Surplus payable to the Central Government .. .. ., ..	**42,50,00,895**	**50**	40,00,12,602	49	40,00,22,721	87
Balance Carried Forward	***Nil***		*Nil*		*Nil*	
Total	**42,50,00,895**	50	40,00,12,602	49	40,00,22,721	87

RESERVE FUND ACCOUNT

By balance on June 30, 1961	80,00,00,000	00
By transfer from Profit and Loss Account ..	*Nil*	
Total	80,00,00,000	00

N. D. NANGIA,
Chief Accountant.

H .V. R. IENGAR,
Governor.

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, 1961.

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

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

Dated July 20, 1961.

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