Reserve Bank of India

Report of the Central Board of Directors for the year ended June 30, 1963. Submitted to the Central Government in terms of Section 53 (2) of the Reserve Bank of India Act.

Annual Report 1963

RESERVE BANK OF INDIA

REPORT
OF THE
CENTRAL BOARD OF DIRECTORS
FOR THE YEAR ENDED JUNE 30, 1963.

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

August 1963

CENTRAL BOARD OF DIRECTORS

(As on June 30, 1963)

Governor	Shri P. C. Bhattacharyya
Deputy Governors	Shri M. V. Rangachari Prof. D. G. Karve Shri C. S. Divekar
Directors, Nominated under Section 8(1) (b) ***of the Reserve Bank of India Act.***	Shri R. G. Sasaiya Shri B. N. Mookerjee Shri Mehr Chand Mahajan Shri K. Ramunni Menon
Directors, Nominated under Section 8(1) (c)	Shri J. R. D. Tata Shri K. C. Mahindra Prof. C. N. Vakil Shri C. P. N. Singh 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, 1963)

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. N. Mookerjee
Shri P. K. Roy
Shri K. K. Birla
Shri C. P. N. Singh
Mr. A. D. Ogilvie

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 19, 1963
Sravana 28, 1885 (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 1963 signed by me, the Deputy Governors and the Chief Accountant and certified by the Bank's auditors;

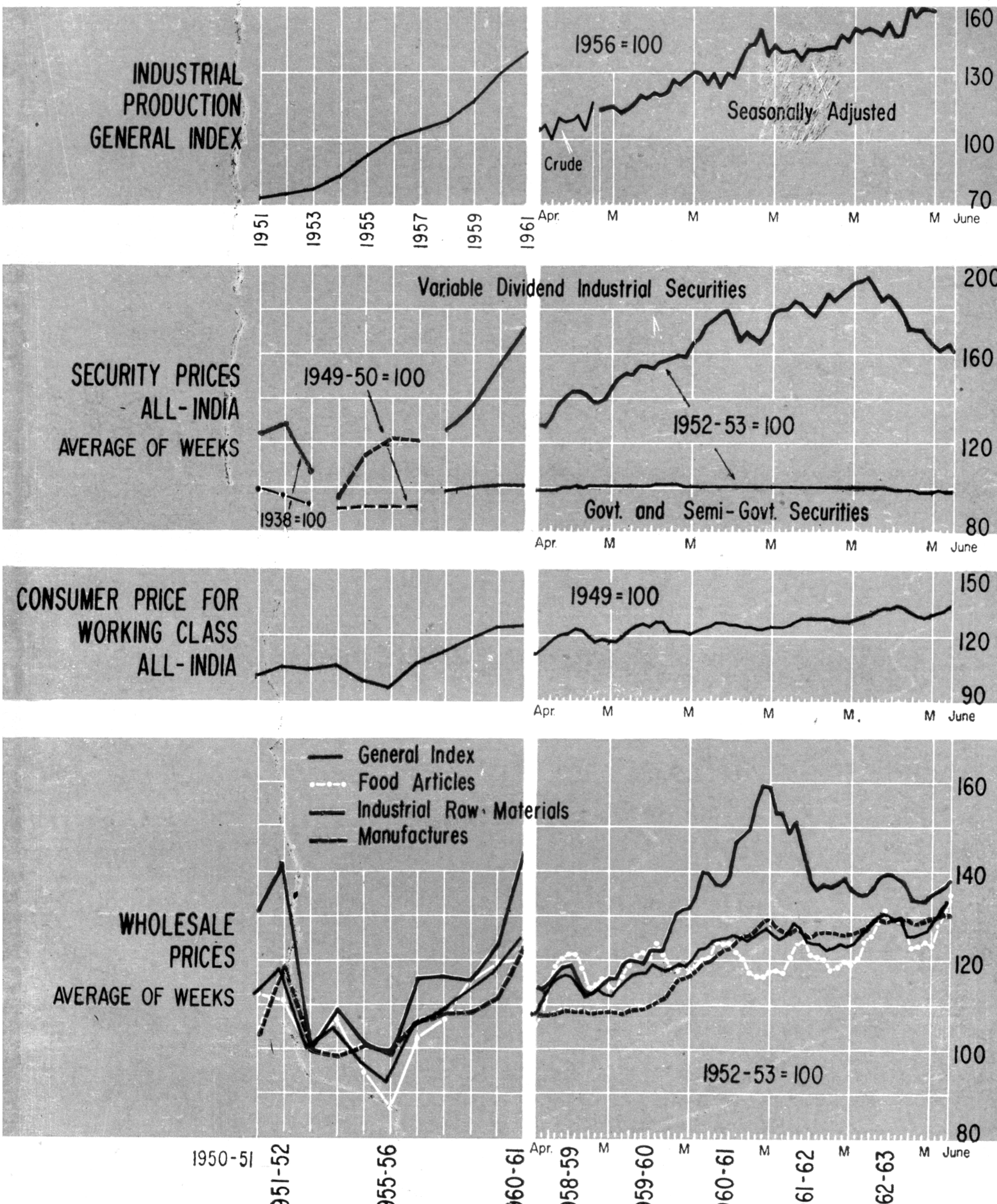
and

(2) two copies of the Report of the Central Board on the working of the Bank during the year ended the 30th June 1963.

Yours faithfully,
P. C. BHATTACHARYYA
Governor.

SELECTED ECONOMIC INDICATORS

INDEX NUMBERS

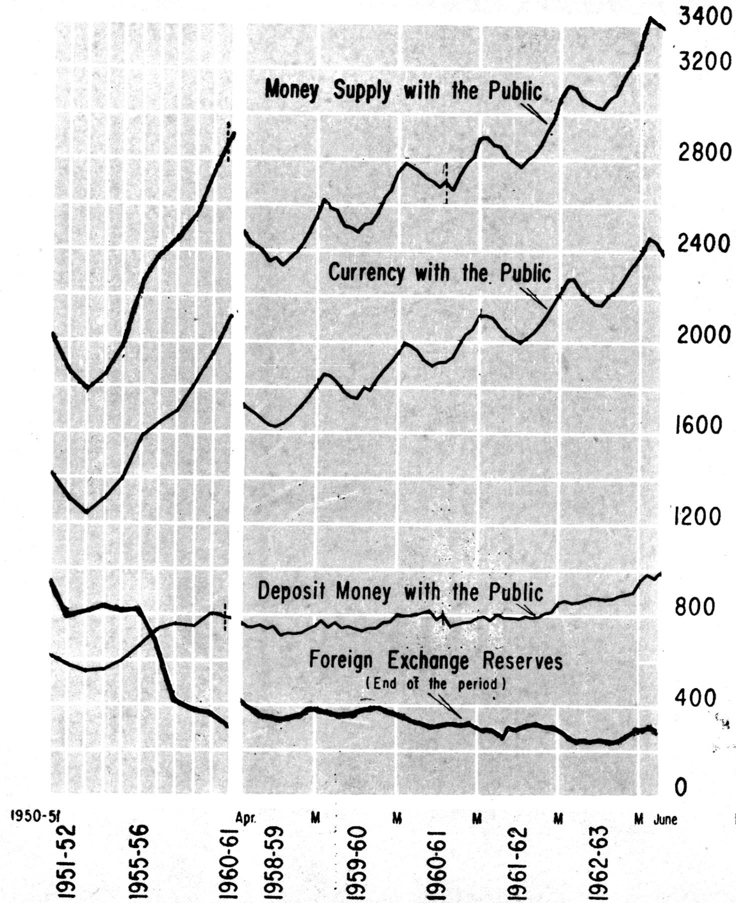


SELECTED ECONOMIC INDICATORS

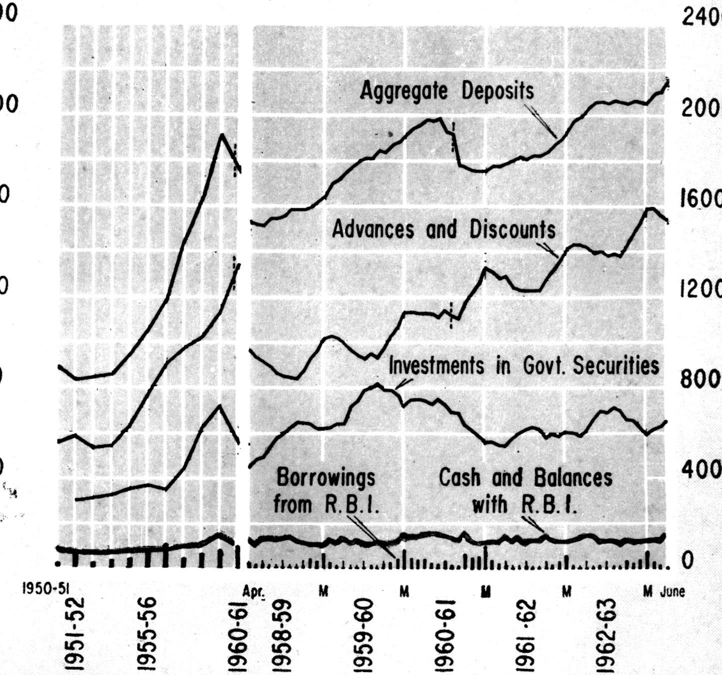
AS ON LAST FRIDAY

(Crores of Rupees)

MONEY AND BANKING



SCHEDULED BANK DATA



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

For the year July 1, 1962—June 30, 1963

I. DEVELOPMENTS IN THE ECONOMY

General

The year July 1962—June 1963 began in difficult circumstances with commodity prices on the upgrade, rate of industrial growth at a low point, stock markets on a downward trend and foreign exchange reserves declining rather rapidly. The Chinese invasion of the country's northern borders in October necessitated a considerable step-up in the defence effort, and together with the larger developmental outlays required to reach the targets in the Third Five-Year Plan, called for the maximum mobilisation of national resources. The developments during the year in various fields of economic policy, therefore, centred on the problem of gearing the economy to an enhanced national effort for defence and development and containing the inflationary pressures that might be generated thereby.

2. The rate of growth of industrial production improved with an easing of shortages in power, fuel and transport which had contributed to the earlier slackening in industry. However, the comparative stagnation in agricultural output, particularly of food articles, experienced during the previous year continued during the year under review. This was chiefly responsible for only a modest rise being achieved in national income in the financial year 1962-63. It also led to an almost continuous pressure on prices and brought problems of price policy to the fore. Government announced several measures, particularly relating to agricultural commodities, which would provide an incentive to production, on the one hand, and on the other would ensure distribution of the more essential commodities at reasonable prices to the consumers.

3. In the field of fiscal and public debt policy, the Government's borrowing rates were raised in respect of both market loans and small savings and additional savings media were introduced to take advantage of the psychological atmosphere

brought about by the Emergency. But the major effort in resource mobilisation was made in the field of taxation with a considerable widening and deepening of the tax structure in the Government of India's budget for the financial year 1963-64.

4. In the Bank's sphere of action, the cost of credit was raised through modifications of the slab rate system coupled at a later stage with an increase in the Bank rate from 4 per cent to $4\frac{1}{2}$ per cent. A system of limiting the access of banks to the Reserve Bank was introduced with the object of restraining excessive credit expansion and making the banking system more selective in its credit operations so as to direct its resources increasingly to purposes connected with defence, development and exports.

5. The overall balance of payments position recorded an improvement during the year 1962-63 (July-June) which was reflected in an increase in the country's foreign exchange reserves of Rs. 48 crores; in the previous year the reserves had fallen by Rs. 41 crores in spite of a net drawing of Rs. 58 crores from the International Monetary Fund. The improvement was mainly the result of a quicker flow of aid. The increase in exports was partly due to the inclusion of exports from Goa; the problem of achieving a higher rate of growth of exports still remains. Another factor of a temporary nature responsible for the rise in foreign exchange reserves was a substantial inflow of banking capital during the busy season of 1962-63. As a result of the improvement in the balance of payments position it was possible to liberalise raw material imports to a small extent.

6. A field in which several important measures were taken was that of gold. Even prior to the Emergency, Government had taken powers to regulate the production, supply and distribution of gold. The measures adopted since the Emergency included the introduction of Gold Control, primarily with a view to preventing smuggling of gold, and the setting up of a Gold Board to administer the control. Gold bonds were introduced in November to mobilise some of the gold hoards in the country and they netted gold worth Rs. 8.8 crores at the international price.

7. The Emergency and its aftermath thus dominated the economic scene during most of the period under review. It necessitated a whole series of measures for the mobilisation of resources and for coping with the problems created by the increased inflationary pressures.

Agricultural Production

8. Although detailed figures of agricultural production in 1962-63 (July-June) are as yet not available, indications are that agriculture has failed for the second year in succession to register any appreciable increase in output. The output of rice in particular shows a decline due to adverse weather conditions in both the Eastern and the Western regions. Wheat production is likely to be equal to the previous year's record output while production of millets and pulses is expected to be higher than the last year's level. Among the commercial crops, the output of groundnut at 45 lakh tonnes in 1962-63 (July-June) is lower by 2 per cent than in 1961-62. A smaller crop of sugar-cane led to a shortfall in sugar production of over 5 lakh tonnes and a sharp increase in prices of sugar; gur prices also rose. Production of cotton at 56 lakh bales according to the trade estimate is likely to establish a new record; but this will still be below the target fixed for the year under the Third Plan. The production of jute and mesta declined by 14 per cent to 69 lakh bales; however, the substantial carry-over of 26 lakh bales from the 1961-62 season ensured a comfortable supply position during the year.

9. Mention was made in last year's Report of the need for more thorough-going efforts to raise agricultural production in general and food production in particular. The performance in the past two years has shown that the need for efforts to raise agricultural output and productivity is even more urgent today than at any time in the past. Unless agriculture is given the highest priority and firm and adequate measures are taken to increase agricultural output, the outcome of the planning effort may be placed in jeopardy. The agricultural sector contributes nearly one half to the national income and the prices of agricultural commodities occupy a crucial place in the price structure. Progress in agriculture is vital to both industrial growth and export promotion.

Industrial Production

10. The year began with a relatively low rate of growth of industrial output of 7.4 per cent during July-September 1962. With progress in overcoming the bottlenecks in power, transport and fuel, which had been responsible for depressing the rate of growth, and with the impetus given by the Emergency, the growth rate picked up. For the financial year 1962-63 the rate was 8.0 per cent as against 6.5 per cent in 1961-62. Production increases were recorded by most of the major industries, the exceptions being silk textiles, synthetic fibres, sugar and tea. A particularly satisfactory feature was the attainment of capacity

working by the steel plants. Aluminium, woollen textiles, jute manufactures and coal were some of the other industries which registered considerably higher rates of growth than in the previous year. As against this, a drop in sugar production occurred as a result of the fall in output of sugarcane and diversion of cane to the production of gur. Tea output also fell owing to adverse weather conditions. During this period, there were additions to capacity in a number of industries such as aluminium, tyres and tubes and cables and wires.

11. While the increase in the rate of growth of industrial production is a welcome development it has to be remembered that the current growth rate of some 8 per cent per year is smaller than the rate of 10 per cent attained a couple of years ago as well as the planned rate of 11 per cent per year. The ability to achieve the planned rate depends, among other things, upon a satisfactory solution of the problem of raw material supplies which would enable fuller utilisation of installed capacity. As regards imported raw materials, the position will no doubt be somewhat better than in the past as a result of the Consortium countries having agreed to make available a larger quantum of assistance untied to projects. This, however, can only be a short-term expedient. A lasting solution of the problem can come only through developing indigenous raw materials and fostering their utilisation and through an increase in export earnings generally.

Aggregate Demand and Supply

12. While aggregate supply during the year July 1962-June 1963 improved, it failed to catch up with the growth of aggregate demand. This imbalance is reflected in a rise in prices during the year. On the supply side, while agricultural production was more or less static, industrial production picked up particularly after the onset of the Emergency and the rate of growth for the financial year 1962-63 showed, as mentioned earlier, a distinct improvement over 1961-62. Imports rose largely because of P.L. 480 imports of foodgrains and cotton. A moderate rise in exports as well as increase in inventories particularly under raw cotton, where the increase was substantial, absorbed a part of the increase in aggregate supplies. Stocks of foodgrains with the Central and State Governments rose only slightly. The magnitude of the increase in aggregate supply was on the whole quite small.

13. As regards aggregate demand, available indicators point to a substantial increase during the year. The total expenditure of the Central Government including the Government's consump-

tion and investment expenditure as well as loans and payments to State Governments, financial institutions and others, increased during the financial year 1962-63 (revised estimates) by 30.2 per cent. Private investment in organised industry which had risen appreciably in 1959, 1960 and 1961, has, it appears from available indices, shown a further rise in 1962. Imports of capital goods on private account as well as domestic output of machinery and intermediate products were substantially higher while the offtake of steel and cement recorded. an increase. Further, fresh borrowings by non-governmental companies were moderately higher than in the previous year. Data regarding applications for consents to new capital issues, which broadly indicate investment intentions of the private sector, showed a rise, although the utilisation of these consents for the reasons noticed later in the Report slowed down after the onset of the Emergency. Population growth must have led to an increase in the consumption outlays of the private sector, increasing also the direct demand for food of the agricultural sector and reducing the marketable surplus.

Pressure on Prices

14. The seasonal rise in prices, which began towards the end of March 1962, continued till early August, with the general index moving up by 7.1 per cent. This rise was larger than that in the corresponding period of the previous year or of the year before. From early August till mid-November prices ruled steady declining only very gently and the post-harvest seasonal fall was confined to a month from November 17 to December 15. The seasonal decline from early August to December 15 was only 4.7 per cent. After that prices were again on the uptrend, slowly at first, but rapidly from March 30, with the onset of the agricultural lean season. Over the year, the rise in prices amounted to 4.6 per cent as against 1.5 per cent in the previous year and 2.8 per cent in the year 1960-61 (July-June). Thus there was once again an upward thrust of prices after two years of comparative stability.

15. All the constituent groups contributed to the rise in the general price index over the year but the major contribution was from food articles which went up by 7.3 per cent. The increase in this group was mainly in the prices of rice, pulses, sugar and gur which rose by 14.1 per cent, 5.7 per cent, 4.8 per cent and 38 per cent, respectively. Industrial raw materials showed a small rise of 1.4 per cent and this was mainly due to the rise in cotton prices. Owmg to the shortfall in the production of raw jute in 1962-63 (July-June) as compared to the previous year, raw jute prices went up slightly; but the rise in this case enabled prices to recover somewhat from the low level to which they had fallen

in the previous year. Oilseeds in contrast showed a small decline over the year. The rise in the prices of manufactures was smaller than that of industrial raw materials, mainly because the rise in the prices of cotton manufactures which followed the rise in the prices of cotton was offset by the substantial fall in the prices of jute manufactures. Liquor and tobacco and fuel, power, light and lubricants, the two other sub-groups, also showed increases over the year of 21.2 per cent and 9.9 per cent, respectively; but a large part of this rise took place as a result of the imposts in the 1963-64 budget.

16. With the onset of the Emergency, several measures were taken in regard to prices. In the first place, in order to avoid hardship to the consumer in regard to essential commodities, distributional facilities were sought to be improved through fair price shops and consumer stores. Secondly, higher procurement prices were fixed for rice and wheat to facilitate the accumulation of Government stocks for diversion to points where shortages appeared. Thirdly, minimum prices were announced, for example, for wheat, jowar and raw jute to provide incentives to cultivators. Lastly, prices of some of the controlled commodities like iron and steel, coal and cement, were raised to meet increases in costs and provide incentives for larger output. Simultaneously, an appeal was made to wholesalers and distributors to take steps through their associations to keep a check on prices. Appropriate adjustments were made in overall and selective credit controls with a view to alleviating pressure on prices. That prices have continued to rise despite these measures highlights the seriousness of the problem and emphasises once again the need for every effort to maintain a reasonable degree of financial stability while reinforcing the measures for defence and development.

Public Sector Outlay and Resource Mobilisation

17. Mainly on account of a large increase in defence expenditure and partly owing to the rise in developmental expenditure, the total budgetary outlays of the Central Government went up substantially from Rs. 1044 crores in the financial year 1961-62 (Accts.) (adjasting for the changes in accounting procedure regarding interest payments) to Rs. 1364 crores m 1962-63 (R.E.) on revenue account and from Rs. 1172 crores to Rs. 1516 crores on capital account. In the States too, total outlays rose appreciably. As regards Plan outlays, the Central and State Governments had planned for an outlay of about Rs. 1480 crores in 1962-63 (R.E.) as compared to an actual outlay of Rs. 1112 crores in 1961-62 (Accts.). For 1963-64 (B.E.) the size of the annual plan has been set at a little over Rs. 1650 crores. There has thus been a progressive stepping up

of Plan outlays, the increase over the previous year rising from 14.8 per cent in 1961-62 (Accts.) to 19.7 per cent in 1962-63 (R.E.) and further to 22 per cent in 1963-64 (B.E.).

18. Given the increase in total outlays, the problem of resource mobilisation has become increasingly difficult. The overall budgetary surplus of the Centre and States of Rs. 48 crores in 1960-61 (Accts.) changed to a deficit of Rs. 87 crores in 1961-62 (Accts.) and of Rs. 132 crores in 1962-63 (R.E.), despite a sizeable increase in taxation at the Centre and in the States in each of the two years as well as better response to market borrowings and larger receipts from non-tax sources. For 1963-64 (B.E.) fresh taxation has been imposed on an unprecedented scale by the Central Government while the States also imposed some fresh taxes. The response to market borrowings is estimated at a higher level in 1963-64 (B.E.) and external borrowings are also expected to be substantially higher; nevertheless the budgeted deficit of the Centre for 1963-64 (B.E.) is estimated at Rs. 181 crores. This underlines the magnitude of the problem of resource mobilisation for the public sector.

19. The performance of the Centre in the field of additional taxation has already exceeded the five-year target laid down in the Plan. The yield from each year's measures of additional taxation including that from the enhancement of railway fares and freights and postal rates amounts to Rs. 85 crores in 1961-62 (Accts.), Rs. 100 crores in 1962-63 (R.E.) and Rs. 280 crores in 1963-64 (B.E.). Over the entire Plan period, the total yield from the various measures of additional taxation undertaken by Central Government during the first 3 years of the Third Five-Year Plan would be around Rs. 1900 crores. Additional taxation in the States yielded Rs. 15 crores in 1961-62 (Accts.). The measures taken in 1962-63 (R.E.) are likely to bring in Rs. 34 crores and the measures proposed for the current year including the step-up in Central sales tax are estimated to yield Rs. 53 crores. This latter figure includes Rs. 21 crores as States' share of the yield from the step-up in sales tax. The five-year yield from these measures is placed around Rs. 515 crores. Additional taxation at the Centre and the States during 1963-64 (B.E.) is expected to raise the ratio of Central and States' tax revenues to national income from 9.6 per cent at the end of the Second Plan to over 13 per cent. This is a considerable achievement and any further substantial expansion of tax receipts will only be feasible on the basis of appreciable increase in production.

20. The taxation policy for the financial year 1963-64 has a number of economic objectives. In the first place, the taxation programme has been designed to meet the heavy expenditure on

defence and development. Secondly, taxes have been increased in order to keep down expenditure on items which have a large foreign exchange content and thereby minimise the strain on the balance of payments; a surcharge of 10 per cent was imposed on all imports, and duties on consumer goods, particularly, kerosene, motor spirit and diesel oil were enhanced. The general surcharge on imports is expected to draw to the exchequer a part of the profits which would otherwise accrue to the importers. Thirdly, in an attempt to encourage import substitution, duties on machinery, iron and steel products and motor vehicle parts have been raised. Lastly, there has also been a definite attempt to mop up purchasing power and to restrict consumption in general. The reliance on indirect taxation has increased, although direct taxation has also gone up substantially. The taxation effort of the States in the financial years 1962-63 and 1963-64 has also been better than in the past. Mention was made in last year's Report of the proposals to increase assessments of land revenue to mobilise tax resources in the States. However, the actual progress made so far in this field has been very limited.

21. Impressive progress was made in respect of Government borrowing during the financial year 1962-63. Net market borrowings by the Centre and the States in 1962-63 amounted to Rs. 184 crores. A step-up in yields as well as the change in sentiment brought about by the Emergency were the main factors responsible for the improvement. The increase in yields on new Government loans issued in July and August 1962 was already mentioned in last year's Report. These loans were followed by the issue in November 1962 of National Defence Bonds 1972 carrying a higher redemption yield of 4.25 per cent as compared to the yields on the existing loans of more or less comparable maturity, ranging between 3.84 per cent and 4.09 per cent. In line with these higher yields there was an upward adjustment in the gilt-edged yield structure. The increase in yields ranged upto 0.42 per cent in the case of short-dated loans, upto 0.71 per cent in the case of medium-dated issues and upto 0.43 per cent in the case of long-dated issues as compared to 0.94 per cent, 0.71 per cent and 0.08 per cent, respectively, in the previous year. The price index of Government and semi-Government securities moved down from 100.7 to 98.8, representing a decline of 2 per cent over the year compared to a decline of 0.4 per cent in 1961-62 (July-June). The process of adjustment appears to have been completed by April 1963, and gilt-edged prices showed a modest recovery in the last two months of the year, following some buying by institutional investors including banks.

22. The 1963-64 budget provided for gross market borrowings for the Centre and States together of Rs. 393 crores. The first

instalment of the borrowing programme announced on April 29, 1963 comprised two new conversion loans, viz., the 4 per cent 1969 Loan and the $4\frac{1}{2}$ per cent 1986 Loan. The total amount subscribed by tenders of the two maturing loans, viz., the $3\frac{1}{2}$ per cent Bonds 1963 and the 3 per cent Loan 1963-65 amounted to Rs. 138.79 crores approximately; the balance of about Rs. 35 crores of these two maturing loans was repaid in cash. The second instalment announced on July 1 comprised an offer of two new cash-cum-conversion loans for a total sum of Rs. 225 crores, namely, (i) a further tranche of the existing 4 per cent 1969 Loan at an issue price of Rs. 99.50 and (ii) a $4\frac{1}{4}$ per cent 1973 Loan issued at par. The redemption yield on the 1969 Loan was the same as on the existing tranche and that on the 1973 Loan was 4.25 per cent which was slightly higher than that on the existing $4\frac{1}{4}$ per cent 1972 Defence Bonds. Subscriptions to the two loans were accepted in the form of cash or securities of eleven State Loans and of two Hyderabad loans totalling Rs. 47.4 crores maturing during the current year. The total subscriptions approximated to Rs. 226 crores, and brought the gross market borrowings during the financial year 1963-64 to Rs. 367 crores.

23. Net collections from small savings during the financial year 1962-63 were smaller than the previous year, amounting to Rs. 78 crores as compared to Rs. 86 crores in 1961-62. This decline is more than accounted for by Post Office Savings Bank Deposits which fell by Rs. 26 crores, despite a raising with effect from August 1, 1962 of the interest rate from $2\frac{1}{2}$ per cent to 3 per cent on deposits upto Rs. 10,000 for individual accounts and from 2 per cent to $2\frac{1}{2}$ per cent on deposits above Rs. 10,000 in individual accounts as well as deposits in public accounts. With the advent of the Emergency, the Government introduced new IO-Year Defence Deposit Certificates and 12-Year National Defence Certificates carrying a higher yield of 4.50 per cent and 4.75 per cent, respectively, as against 4 per cent and 4.25 per cent on the corresponding savings media which they replaced. A new scheme of Premium Prize Bonds, 1963 was also introduced with effect from January 1, 1963 which will run to the end of the year. The new Bonds give the holders a premium of 10 per cent on the face value besides the chances of winning a prize. Another measure for mobilising resources for defence was the setting up of the National Defence Fund. The total contributions received into the Fund upto June 1963 amounted to Rs. 54.6 crores in cash, and 21.75 lakh grammes in gold and gold articles valued at Rs. 1.17 crores at the international price of gold and 10.75 lakh grammes in silver.

24. An important step taken to augment the budgetary resources of the Central and State Governments was the introduction

of a compulsory deposit scheme, Under this scheme individuals belonging to various sections of the community such as salary earners, businessmen, agriculturists, etc. with incomes above certain levels are required to deposit specified proportions of their incomes regularly. The deposits are not withdrawable for a period of five years and will bear simple interest at 4 per cent per annum. The scheme is expected to bring in Rs. 60 crores in the financial year 1963-64, of which Rs. 25 crores is estimated to accrue to the Centre and Rs. 35 crores to the States.

25. External assistance in the form of loans and grants at Rs. 263 crores during the financial year 1962-63 was higher than in 1961-62 by Rs. 78 crores. Budgetary receipts from P.L. 480 counterpart funds are expected to be of the order of Rs. 194 crores as compared to Rs. 122 crores in 1961-62. In the aggregate, net foreign assistance is estimated to be higher by Rs. 150 crores than in 1961-62.

Mobilisation of Resources in the Private Sector

26. Available information indicates that the resources available to the private sector from the capital market suffered some setback in the year 1962-63 particularly after the Emergency. Stock markets which had enjoyed an almost unbroken boom since 1958 took a sharp downward turn, the index of share prices falling by 8.2 per cent during July-December 1962 and 16.0 per cent during the full year ended June 1963. The decline was mainly attributable to the situation created by the Chinese invasion, apprehensions concerning the budget and disappointment over the smaller increase in steel retention prices than recommended by the Tariff Commission. A part of the fall came as a corrective to the earlier rise in share prices. The unusually heavy taxation in the 1963-64 budget which included a Super Profits Tax that, in its original form, raised serious doubts about maintenance of dividends and retained profits by companies, accentuated the depressed state of the stock markets.

27. During 1962, consents granted by the Controller of Capital Issues to companies in the private sector for issue of shares, other than bonus shares, and debentures, which broadly indicate investment intentions in the private sector, were markedly higher at Rs. 163 crores as against Rs. 133 crores in 1961. The amount of consents for issue to foreign participants also rose. Total capital raised by private sector companies in shares and debentures during 1962 was, however, only slightly higher. Public response to the issues during the year was more selective than in the preceding year, particularly during the last quarter of the

year when a number of issues failed to attract sufficient subscriptions. The change in sentiment was also reflected in the non-utilisation by many new companies, of the consents received for capital issues. Available data on new issues for the first half of 1963 indicate a further slowing down.

28. To deal with the situation arising from the sharp fall in share prices, further measures to regulate the working of stock exchanges were found necessary. The uniform margin system introduced in December 1961 was found inadequate and was buttressed by other measures to curb speculative trading and, at the height of the crisis, by the temporary closure of business on the leading stock exchanges. Government ordered the suspension of forward trading on stock exchanges effective November 29, 1962. With an abatement of selling pressure in the markets, these restrictions were gradually lifted. Government also permitted in June 1963 the resumption of forward trading in shares subject to a system of margins, stricter than the uniform margin scheme in operation till then and which aimed at safeguarding the interest of investors and protecting the markets from speculative raids.

29. As against a shortfall in the resources available for industry in the private sector from the capital market, the finance from the various term lending institutions* showed an increase during the year. While the aggregate amount of loans sanctioned by these institutions rose from Rs. 67 crores in the financial year 1961-62 to Rs. 70 crores in 1962-63, the more significant fact was the appreciable rise in actual disbursement from Rs. 30 crores to Rs. 47 crores. The ratio of disbursements to total sanctions which was about 47 per cent in the financial year 1961-62 rose to 67 per cent in 1962-63. These funds were distributed among a larger number of industrial units and were utilised not only for expansion and modernisation of existing units but also for the establishment of new industries. The Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India also provided increased underwriting facilities in respect of new issues. The Life Insurance Corporation too expanded its activities. The life fund of the Corporation which had increased by Rs. 65.1 crores in 1960 rose further by Rs. 71.2 crores in 1961 (the latest year for which data are available). The Corporation's investments in the public

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*** Comprising (i) The Industrial Finance Cdrporation of India, (ii) The State Financial Corporations, (iii) The Industrial Credit and Investment Corporation of India, (iv) The Refinance Corporation for Industry and (v) The National Industrial Development Corporation. Data for the ICICI relate to the calendar years 1961 and 1962.**

sector rose by Rs. 32.6 crores and those in the private sector comprising mainly shares and debentures of joint stock companies by Rs. 13.5 crores in 1961. Also, the amount of shares and debentures underwritten by the Corporation increased appreciably from Rs. 2.3 crores in 1960 to Rs. 7.6 crores in 1961. The flow of funds through the Corporation may be expected to show a further improvement during 1962. The various term-lending institutions are thus increasingly assisting the growth of the private industrial sector by widening their activities. In the prevailing context of sluggish conditions in the new issue market there is likely to be growing pressure of demand from the industry on these institutions.

30. Financial assistance to the small-scale industries sector was made available in a variety of ways. The Central budget for the financial year 1962-63 provided Rs. 12 crores for grants and loans and advances to State Governments for the purpose of making loans to small-scale industries. The Government scheme for the guarantee of loans and advances granted to small-scale industries by specified credit institutions, was also made permanent and extended to the entire country. Guarantees issued under this scheme during 1962-63 (July-June) aggregated Rs. 9.7 crores as against Rs. 6.3 crores in 1961-62, the total amount of outstanding guarantees as on June 30, 1963 being Rs. 9.80 crores. The State Bank and its subsidiaries in particular have been providing increasing financial assistance to the small-scale industries sector under the co-ordinated credit scheme initiated in 1956.

31. In the agricultural sector, the assistance out of the National Agricultural Credit (Long-term Operations) Fund was in the form of medium-term loans to State co-operative banks, long-term loans to State Governments for contribution to the share capital of co-operative credit institutions and subscriptions to rural debentures floated by central land mortgage banks. The medium-term credit limits sanctioned during the year aggregated Rs. 9.3 crores as against Rs. 9.6 crores during the year 1961-62. Loans to State Governments for share capital participation in co-operative credit institutions amounted to Rs. 4.9 crores during the year which was the same as was sanctioned in 1961-62. Rural debentures floated by the Andhra, Maharashtra, Gujarat, Kerala, Madras and Punjab central land mortgage banks during the year were for a total sum of Rs. 1.69 crores which included the Reserve Bank's contribution of Rs. 93 lakhs; during 1961-62 rural debenture floatations aggregated Rs. 2.25 crores of which the Bank's contribution amounted to Rs. 97 lakhs. Ordinary debentures floated by central land mortgage banks during the year

were Rs. 19.2 crores, of which the amount subscribed by the Reserve Bank was Rs. 2.5 crores; the corresponding figures for 1961-62 were Rs. 10.5 crores and Rs. 0.7 crore, respectively. Contributions to ordinary debentures came as usual from the general funds of the Bank.

Monetary and Credit Trends

32. The increased outlays in the public and private sectors led to a marked rise in money supply amounting to Rs. 315 crores during 1962-63 as against Rs. 217 crores in 1961-62, showing a rate of growth of 10.3 per cent as against 7.6 per cent in the previous year. While both components of money supply increased, the expansion in deposit money which comprises demand deposits with banks and 'other' deposits with the Reserve Bank of India, was larger (from Rs. 55 crores in 1961-62 to Rs. 131 crores in 1962-63) than in currency with the public (from Rs. 162 crores to Rs. 184 crores).

33. Net bank credit to Government, which comprises investments in Government securities by the Reserve Bank and other banks (excluding the investments of P.L. 480 and P.L. 665 funds) and ways and means advances adjusted for changes in Government's cash balances with the Bank, has been the most important factor affecting money supply during the year although its contribution was a little lower at Rs. 316 crores in 1962-63 as against Rs. 327 crores in the previous year. In both years, the bulk of the increased credit was made available by the Reserve Rank. Credit extended by banks to the private sector comprising both bank advances and holdings of private securities rose by a smaller amount of Rs. 144 crores in 1962-63 as against Rs. 161 crores in 1961-62. However, as time deposits of the banks, adjusted for P.L. 480 and P.L. 665 deposits, increased by a much smaller magnitude as compared to the previous year—Rs. 76 crores in 1962-63 as against Rs. 204 crores in 1961-62—net bank credit to the private sector, which comprises banks' advances and holdings of private securities adjusted for time deposits, showed a large swing from a contraction of Rs. 43 crores in 1961-62 to an expansion of Rs. 68 crores. This exerted a substantial expansionary impact on money supply. The balance of payments which in the past few years had contributed to an increasing extent to a contraction of money supply also changed into an expansionary factor. As against a reduction of Rs. 107 crores in the net foreign exchange assets of the Reserve Bank in 1961-62, there was a rise of Rs. 7 crores in 1962-63, indicating a swing of Rs. 114 crores. While in 1961-62, a decline of Rs. 16 crores in foreign exchange assets was accompanied by

a substantial increase in foreign exchange liabilities which included a net drawal on the International Monetary Fund of Rs. 58.3 crores, the small rise in foreign exchange assets in 1962-63 was not offset by any significant increase in foreign exchange liabilities.

34. Although the expansion in bank credit over the year 1962-63 (July-June) was somewhat smaller than in the previous year, the banking system was under pressure in the early part of the year mainly as a result of the dislocation caused in the economy by the Chinese invasion. Following the declaration of the Emergency there was a slowing down of deposit growth which lasted till about the middle of March. Aggregate deposits excluding P.L. 480 and P.L. 665 funds, rose by only Rs. 68 crores during the period October 1962 to March 1963 as compared to Rs. 125 crores in the corresponding period of the previous year. Also, the busy season of 1962-63 started with a somewhat more extended position for the banks than in the previous year as the slack season contraction had been much less in 1962 than in 1961. At the peak of the busy season in 1962-63, the expansion of bank credit at Rs. 216 crores was a little higher than in the 1961-62 busy season (Rs. 213 crores). The credit-deposit ratio excluding P.L. 480 and P.L. 665 funds, touched 80.1 per cent on April 12, 1963 as against 78.5 per cent touched in the previous busy season on May 4, 1962. Because of the set-back in the growth of deposits during the busy season and the spurt in seasonal credit demands, banks had to explore other avenues for raising resources. Their borrowings from the Reserve Bank reached a peak of Rs. 83 crores in the 1962-63 busy season as against Rs. 66 crores in 1961-62 season. Banks had to liquidate a part of their investment portfolio; there was greater activity in the inter-bank call money market where the rates touched record levels of 6¼ per cent to 63 per cent and some banks also brought in sizeable funds from abroad.

35. The set-back in deposit growth was, however, temporary. This is apparent from the trend of deposits since March. During the four months April-July 1963 aggregate deposits, excluding P.L. 480 and P.L. 665 funds, increased by Rs. 136 crores as against Rs. 125 crores during the corresponding period. An interesting development in the recent growth of deposits is a shift in favour of demand deposits. Over the year 1962-63, time deposits have shown an increase of only Rs. 68 crores as against Rs. 203 crores during the previous year while demand deposits have increased by Rs. 118 crores as against Rs. 58 crores. This reduces to some extent the cost to the banks of raising deposit resources and affords them some relief in a situation where all other costs are on the increase.

36. The fact that the set-back in deposit growth in the last busy season was temporary does not mean that the banks can afford to slacken their efforts at deposit mobilisation. With rising money incomes and investment, the pressure of demand on liquid funds will grow *pari passu* with that on real resources. It is essential therefore that the additional credit supplied by the banking system is backed by the genuine savings of the community in the form of bank deposits, as otherwise the existing pressures on the price level will be further accentuated. This is the basic consideration behind the concern that is felt by the Bank with regard to the high levels of credit-deposit ratio that have been prevalent in the recent past.

37. In terms of the recent amendments to the Banking Companies Act, banks have to maintain a higher over-all ratio of liquid assets to their demand and time liabilities, i.e., 28 per cent as against 20 per cent currently, as from September 1964. An intensive effort at deposit mobilisation will be necessary for the banks, especially those units which have been working with a highly extended position, in order to be able to fulfil the statutory requirement without at the same time starving demands for productive credit.

38. During May-July 1963, the first three months of the current slack season, bank credit contracted by Rs. 103 crores as against Rs. 42 crores in the corresponding period of the previous slack season. The faster pace of credit contraction together with the recent rate of deposit accretion has improved somewhat the liquidity position of banks.

Monetary and Credit Policy

39. The pressure on prices and the slow pace of seasonal credit contraction during the 1962 slack season mentioned earlier led the Bank to tighten access to its accommodation by reducing the quota for borrowing at the Bank rate from 50 per cent of the average statutory reserves of each scheduled bank for the preceding quarter to 25 per cent. Borrowings in excess thereof upto 50 per cent of the average statutory reserves were to be at 1 per cent above the Bank rate, those in excess of 50 and upto 100 per cent of the average statutory reserves at 2 per cent above the Bank rate and those above 100 per cent at 2.5 per cent above the Bank rate.

40. The possibility of a further pressure on prices owing to the Emergency led to a more stringent policy of credit restraint. Accordingly, effective October 31, 1962, the Bank revised its

system of lending rates, reducing the existing tiers to three, and for the first time regulated the availability of credit to banks by fixing a ceiling on such accommodation equal to a bank's average statutory reserves during the previous quarter. Borrowings upto 25 per cent of the statutory reserves were to be permitted at the Bank rate, viz., 4 per cent, another 25 per cent at 5 per cent and the balance at 6 per cent. Borrowings in excess of the basic quota were to be charged a higher rate which in effect was $6\frac{1}{2}$ per cent. In order to ensure that the genuine needs of industry and trade were adequately met, the revised policy was operated with a large measure of flexibility. Appropriate permissible limits for borrowing were granted to applicant banks, after assessment of a bank's position and taking into account the needs of defence production, essential industries and exports. Banks were called upon to readjust their advances portfolio, to refuse advances which were likely to be used for purposes of hoarding and speculation, and to consider recalling in suitable cases advances against gold, shares and unsecured advances. The policy of granting preferential treatment in respect of Bank's lendings to certain special sectors like small-scale industries and co-operatives was continued.

41. As regards export finance, the Bank introduced in March 1963 the Export Bills Credit Scheme. The scheme widened the range of collateral for such borrowing, banks being permitted to borrow against their demand promissory notes and upon their declarations of holdings of usance export bills, and also cheapened the cost of borrowing slightly, since *ad valorem* stamp duty charges are not payable on demand promissory notes. These advances were to be within the overall limits sanctioned to each bank, A special facility was, however, provided in respect of a bank's holdings of rupee export usance bills. Banks are entitled to borrow against declarations of their holdings of these bills at the Bank rate, over and above the overall permitted level of borrowing at this rate, provided they agree not to charge the exporters interest/discount/commission at a rate higher than $1\frac{1}{2}$ per cent above the Bank rate.

42. The steady increase in interest rates in the money and capital markets since October 1960 brought to the fore the question of adjusting the Bank rate in line with the prevailing pattern of interest rates. The last revision of the Bank rate was made in May 1957 when the rate was raised from $3\frac{1}{2}$ per cent to 4 per cent. Effective from the close of business on January 2, 1963, the Bank rate was further raised by $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent. Simultaneously, the system of lending rates was simplified into a two-tier system by merging the first two slabs. Banks were permitted to borrow in each quarter a sum equal to 50 per cent

of their average statutory reserves during the previous quarter at the Bank rate and the remaining 50 per cent at 6 per cent; any borrowing beyond this level was to be charged a higher rate which was fixed at 6.5 per cent.

43. In the past two years or so, banks had progressively raised their lending rates, and the average rate of interest earned on advances by scheduled banks had risen from 5.6 per cent in 1959 to 6.4 per cent in the first half of 1962. In terms of the All-India Inter-Bank Agreement on the Minimum Rate of Interest on Advances, banks which are signatories to the Agreement further stepped up their minimum advances rate from 6 to $6\frac{1}{2}$ per cent, viz., 2 per cent above the Bank rate, effective January 3, 1963. In April 1963 the State Bank, which previously had not increased its borrowing and lending rates, also raised its general advances rate by 1 per cent-though retaining the rate of 5 per cent for advances against government securities-and its savings and fixed deposit rates by $\frac{1}{2}$ per cent, thus bringing its interest rates on savings and fixed deposits on par with the maximum rates on deposits fixed under the Inter-Bank Agreement. The long-term lending agencies also raised their lending rates generally by $\frac{1}{2}$ per cent in keeping with the increase in Bank rate.

44. In line with the general quantitative controls, selective credit controls were also tightened up. The exemption granted by the Bank in respect of advances against warehouse receipts covering paddy and rice and other foodgrains excluding wheat from the scope of selective credit controls resulted in a progressive rise in advances against warehouse receipts arising out of increasing use of the warehouses, set up by the Central and State Warehousing Corporations, by traders rather than by cultivators, and thus tended to nullify the effect of these controls. The Bank, therefore, issued two directives in January and March 1963, imposing for the first time a minimum margin of 25 per cent on advances against warehouse receipts covering stocks of paddy and rice and other foodgrains excluding wheat, as compared to 35 per cent for advances other than those against warehouse receipts. The directives also prescribed ceiling limits, commencing from January-February 1963 in respect of paddy and rice and from March-April 1963 in respect of other foodgrains, at the aggregate average level of advances in the corresponding period of 1962 inclusive of advances against warehouse receipts. As, however, the inclusion of advances against warehouse receipts within the overall ceilings tended to produce a disproportionate contraction of these advances, the directives were partially modified on May 16, 1963. Ceilings have now been placed on banks' 'other' advances, i.e., other than those against warehouse receipts within

the overall ceilings prescribed earlier, the balance being available for advances against warehouse receipts; also banks can make advances against warehouse receipts out of the limits fixed for other advances.

45. In view of the firmness in sugar prices arising from lower output in the 1962-63 season and the spurt in advances to traders, the Bank issued on April 27, 1963 a directive to scheduled banks, prescribing a minimum margin of 45 per cent on credit limits or advances granted to parties other than those manufacturing sugar and on those granted to parties manufacturing sugar in respect of stocks which have left the factory premises and on which excise duty has been paid.

46. As regards oilseeds, the ceiling limits fixed by the Bank for advances against groundnuts lapsed at the end of February 1963, and since then bank advances against groundnuts and other oilseeds are only subject to minimum margin requirements of 45 per cent and 40 per cent, respectively.

47. The impact of the various control measures in operation during the year was generally salutary. Net expansion in scheduled bank credit in the 1962-63 busy season was of the same magnitude (Rs. 203 crores) as in the previous busy season. Though credit expansion against seasonal commodities was somewhat larger in view of the substantial rise in the output of raw cotton, that against non-seasonal commodities was about the same as in the 1961-62 busy season, while the rise in unsecured advances was smaller. Advances against shares, gold and gold ornaments came down in line with the advice given by the Bank. The progress of credit contraction in the 1963 slack season is also satisfactory. For 1962-63 as a whole, the net increase in scheduled bank credit was somewhat smaller, being 7.9 per cent as compared to 10.5 per cent in 1961-62. The modifications in the slab rate system, outlined earlier, generally exercised a restraining influence on scheduled banks' borrowings from the Reserve Bank. The highest weighted average rate on borrowings from the Bank was 5.8 per cent, as against 5.1 per cent during the busy season of 1961-62. The average cost of borrowing by banks from the Reserve Bank during January-June 1963 was 5.4 per cent as against 4.6 per cent during the corresponding half-year of 1962.

48. The keynote of the Bank's credit policy has been to maintain both a general and selective restraint on credit and a pruning down of less essential demands through a combination of quantitative and qualitative measures. The appropriateness of this policy has to be judged in the context of insistent pressures

on the supply of available real resources for defence and development. The shortage of real resources and the presence of bottlenecks in various sectors of the economy are factors which not only cannot be overcome by a liberal credit policy but may on the contrary be accentuated by excessive credit expansion. What is needed is so to regulate the supply of central bank credit that the monetary system subserves the overall objectives of economic policy, namely, to keep prices as stable as is reasonably possible without starving productive credit requirements. The cost at which credit can be obtained has also a role to play in this policy. An awareness that credit has its own cost can exercise a healthy influence on its use.

49. Flexibility is the essence of sound monetary policy. In the Indian economy flexibility is needed with reference to two considerations, the changing overall requirements of the economy and the strong seasonal pressures. The policy has to take into account both these in deciding the quantum of credit to be made available and its cost. The slab system of lending evolved over the past three years represents, as it were, a compromise between the obligations of the Bank as the lender of last resort and its duties as the controller of credit. It is a flexible system permitting of modifications and such modifications have been made from time to time to suit the requirements of the situation.

50. The effectiveness of monetary policy depends to a considerable extent on the direction in which fiscal policy tends. Large deficit financing gives rise to an accrual of deposits in the banking system and enhances its potential for credit expansion. The large quantum of net bank credit to Government which is the overall measure of deficit financing witnessed during the last two years is significant in this context. The bold tax effort in the current year's budget, which aims in a purposive manner at alleviating the pressure of demand should result in a better control of the economy. The task of monetary policy would to that extent be rendered easier.

Gold Policy

51. A factor affecting the balance of payments of the country has been the continued smuggling of gold. Efforts made by the Government in the past to plug this leakage in foreign exchange receipts had brought only partial results. Government, therefore, decided to take further steps to deal with the situation. The first step was the passage in September 1962 of legislation bringing gold within the purview of the Industries (Development and Regulation) Act, 1951 which enabled the Central Government to take steps to regulate the production, supply and distribution of gold. This was followed by a ban on forward

trading of gold effective from November 13, 1962. On January 9, 1963 the Government promulgated the Gold Control Rules providing *inter alia* for the declaration of holdings of non-ornament gold, registration of dealers in gold, a ban on sale and purchase of gold except with permit and the prohibition of manufacture of ornaments of more than 14 carat purity. To administer the Gold Control Rules, a Gold Board was also established simultaneously. Following these developments, official trading came to a standstill but dealer-to-dealer transactions in declared gold commenced from February. As several types of cases of evasion came to light in the operation of the Gold Control Rules, Government amended the Rules towards the end of June 1963. The amended Rules prohibit the production by any refinery of primary gold of a purity of more than 14 carat and provide for compulsory hall-marking of all primary gold produced by refineries, with effect from a date to be prescribed by the Gold Board. These measures were primarily designed to curb smuggling effectively through regulation of transactions in gold inside the country. The measures were also intended to subserve the long-term objective of reducing the demand for gold in the country. In pursuance of this objective, the Reserve Bank advised the banks to recall in suitable cases advances against gold.

52. As a result of these measures, gold prices suffered a set back; the price of the yellow metal which had touched an all-time peak of Rs. 129.90 per 10 grammes on August 29 receded to Rs. 115.75 on October 10. Subsequently, the quotation moved up by November 3 to Rs. 121.65 on continued high level of demand. Thereafter, as a cumulative result of the floatation of gold bonds and the ban on forward trading in gold, the quotation came down sharply to Rs. 86 on November 24, 1962. Due to the emergence of a strong consumer demand at such a low level, there was a recovery and the quotation touched Rs. 115.25 by December 18. It had receded once again to Rs. 102.75 by January 9, 1963 when the Gold Control Rules were announced and official trading came to a standstill until dealer-to-dealer transactions commenced on February 18. The initial trend of dealer-to-dealer quotations was downward, falling from Rs. 102 on February 18 to Rs. 95 by February 28, but with the increase in demand during the marriage season, the quotation moved up to Rs. 118 by May 9, but came down thereafter with the abatement of the demand to Rs. 112 by June 22.

Balance of Payments

53. The year opened with foreign exchange reserves under strain. During the year 1961-62 they had fallen by Rs. 41 crores despite a net drawing from the International Monetary Fund to

the tune of Rs. 58 crores. The greatest amount of pressure was experienced in the quarter April-June 1962, immediately preceding the year 1962-63. A stand-by agreement for U.S. $100 million was, therefore, entered into and the equivalent of U.S. $25 million or Rs. 12 crores was drawn in July 1962. During 1962-63, however, not only was the drawing repaid but the reserves rose by Rs. 48 crores. There was thus a favourable swing of the order of Rs. 147 crores.

54. The main reason for this swing is the very much quicker pace of reimbursement receipts under the U.S. Agency for International Development loans amounting to Rs. 90 crores as against Rs. 20 crores in 1961-62. The improvement in exports, partly attributable to transactions on account of Goa, Daman and Diu, was itself of the order of Rs. 35 crores. To some extent the favourable shift in the balance of payments is explained by the behaviour of banking capital which changed from an outflow of Rs. 9 crores in 1961-62 to an inflow of Rs. 10 crores in 1962-63.

55. The last full year for which balance of payments details are available is the financial year 1962-63. The discussion in the remaining paragraphs relating to the balance of payments is, therefore, based on these details. For this period, the position broadly was the same as stated above, though the figures relating to movement in reserves were somewhat different, During this financial year, foreign exchange reserves showed a fall of Rs. 2 crores as against a fall of Rs. 6 crores in the previous financial year. Allowing for net drawings of Rs. 58 crores from the International Monetary Fund in the financial year 1961-62 as against Rs. 12 crores in 1962-63, the pressure on the reserves in 1961-62 worked out to Rs. 64 crores and in 1962-63 to Rs. 14 crores. Various measures taken during the year, namely, the imposition of restrictions on foreign travel, the steps taken to cheek smuggling, the amendment of the Sea Customs Act and the introduction of Gold Control as well as larger receipts of aid not tied to specific projects, also seem to have made some contribution to the favourable outturn.

56. The deficit on current account, which includes merchandise transactions relating to Goa, Daman and Diu, since April 1962 widened further by Rs. 31 crores from Rs. 303 crores in 1961-62 to Rs. 334 crores. Export earnings improved over the year by Rs. 15 crores but the import bill increased by Rs. 88 crores, with the result that the trade gap widened from Rs. 334 crores to Rs. 407 crores. Receipts from official donations rose from Rs. 46 crores to Rs. 77 crores due to larger grants out of P.L. 480 funds, while payments on account of other invisible transactions declined from Rs. 15 crores to Rs. 4 crores.

57. The whole of the increase in export earnings during the financial year 1962-63 is accounted for by the inclusion of exports from Goa etc. (Rs. 16 crores) in total exports from this year. However, it appears that there was some real improvement during the second half of the year which more than offset the comparative stagnation of exports during the first half. Commodity-wise, the increase in export earnings was shared mainly by jute manufactures, vegetable oils and oilcakes, and metallic ores; but there were declines in the earnings from coffee, cotton raw and waste, tanned hides and skins and cotton textiles. Exports to East European countries continued to increase, rising from Rs. 65 crores in 1961-62 to Rs. 86 crores in 1962-63, while exports to the rest of the world declined from Rs. 603 crores to Rs. 596 crores.

58. Total import payments of Rs. 1089 crores during the period under review were 9 per cent higher than in 196 l-62 but somewhat lower than in 1960-61. Larger Government purchases were responsible for the whole of the increase over the year, private imports having in fact declined by Rs. 12 crores. Government imports of both developmental and non-developmental items recorded increases. On private account, all the categories of imports were held down by a tighter import policy. Pursuant to the Mudaliar Committee's recommendations, a larger proportion of licences were issued on an annual basis than hitherto. But for this, the policy in the year 1962-63 remained essentially restrictive and advantage was taken of increases in internal availabilities to effect cuts in quotas. The import policy for the year 1963-64, announced in April 1963, continued to be restrictive despite a moderate liberalisation for established importers by lifting the ban on about 80 items and the stepping up of foreign exchange allocation for small-scale industries.

59. Higher receipts such as freight reimbursements in respect of P.L. 480 imports helped to reduce the net payments on account of invisible transactions. Investment income payments reflecting the growing foreign debt servicing burden continued to rise; but rhe payments on account of private donations, insurance, transportation and other miscellaneous services were lower, in part due to the various measures adopted since June 1962 to conserve the country's foreign exchange earnings.

60. The year also witnessed a sizeable inflow of banking capital of Rs. 16 crores as against an outflow of Rs. 13 crores in the corresponding period of the previous year. The lower Bank rate in the U.K. coupled with the continued restraint of monetary policy in India and an unusually active busy season in 1962-63 brought about the favourable turn. The inflow mainly took

the form of an increase in foreign currency liabilities of authorised dealers.

61. A number of changes were effected during the year in exchange control regulations. In December 1962, all Indian nationals holding shares/securities abroad were required to repatriate to India dividends, interest and sale/maturity proceeds of such shares and securities. Similarly, except in the case of accounts maintained prior to September 3, 1939 in non-sterling area currencies and July 8, 1947 in sterling area currencies, holders of foreign currency accounts were allowed to hold abroad balances upto £500 only. In February 1963, the general permission to travellers to carry Rs. 75 per person into or out of the country was withdrawn, though authorised money changers are allowed to sell foreign currency notes upto Rs. 40 per person to travellers and deck passengers to certain neighbouring countries: travellers to Ceylon and Pakistan are also allowed to take Indian or foreign currency notes upto Rs. 20 in value at a time. Foreign transit passengers are, however, allowed freely to convert rupee notes into foreign currency on production of evidence that the rupees were acquired by them by sale of foreign currency notes or travellers' cheques to authorised dealers or authorised money changers. Consequent on the extension of the Foreign Exchange Regulation Act, 1947, together with all rules and regulations thereunder, to Goa, Daman and Diu, all residents of these territories, other than foreign nationals temporarily resident, holding foreign currency balances abroad, other than balances in Burma, Pakistan and Ceylon, were required to declare them to the Exchange Control Department of the Bank before May 14, 1963. Persons who declared their balances before that date are allowed to retain half of such balances to be utilised for approved purposes.

62. The various export promotion measures taken by India during the last few years, including the setting up of the Board of Trade in May 1962, appear to be bearing fruit gradually, though the average annual increase in exports necessary to attain the Third Plan target yet remains to be achieved. During the year, a large number of items was freed from export control, the export duty on tea was abolished and freight concessions on 19 export items were announced. In addition, fiscal incentives in respect of a number of export commodities were announced and a provision of Rs. 3 crores was made in the 1963-64 budget for developing new markets. Similarly, credit facilities for exporters were further enlarged.

63. Nearly half (47 per cent) of India's exports still consists of the three traditional items, namely, tea, jute goods and cotton

textiles; their share of the total exports was 52 per cent in the First Plan period. The scope for stepping up these traditional exports is limited for a number of reasons, such as increased competition from other developing countries, low elasticities of demand, trade barriers in the developed countries and increasingly protectionist policies of the developing ones. In addition, costs in these industries have also been on the upgrade. On the whole, their exports face an uphill task in foreign markets. Notwithstanding these difficulties, for an appreciable enlargement of exports in the near future reliance has still to be placed on a steady growth of traditional lines which form the sheet-anchor of the country's exports. Withal, a growing range of new export lines based on a diversifying productive structure will have increasingly to supplement the traditional lines.

64. One of the important constituents of export promotion policy is the various incentive schemes. These schemes have proved to be of help in those cases where expanding output has enabled the industry to reduce its costs and to increase its exports. In some cases, however, the benefits of the schemes which succeeded initially in promoting exports have been eroded by rising costs. Export incentive schemes which seek to offset an adverse trend in the costs of production face heavy odds and may prove to be no more than temporary expedients to ensure a flow of exports that can only be sustained or improved by a direct attempt to hold the cost line. Such schemes will, nevertheless, continue to have a role in export promotion where they can alter the relative profitability of exports and domestic consumption in a context of rising domestic demand. The ultimate success of all export promotion devices depends on broad policies designed to increase output, restrain domestic consumption, raise efficiency and reduce costs of production and improve the quality of products.

65. At the same time, the industrialised countries have to extend their co-operation by liberalising progressively their trade policies with a view to promoting exports from developing countries, such as India. The benefits under GATT concessions under the "Dillon-Round" to countries like India have been only marginal. The prospects for a real expansion in the export trade of the under-developed countries now depend upon the results of the proposed "Kennedy-Round" which envisages 50 per cent across-the-board reductions in tariff rates on a number of industrial products, a nil tariff for some of the tropical products like tea, coffee and timber and the removal of non-tariff barriers.

66. Although the main source of strain on the balance of payments is the size of the import payments, it needs to be

recognised that since the commencement of planning there has been considerable import substitution. In regard to iron and steel, the impact has been very pronounced; while total supplies have increased, the ratio of imports to total availability has, at the same time, been halved, Tea and 'sugar machinery are two other items where the process of import substitution has been satisfactory. Thus it is clear that this is a field which has great possibilities, but it calls for a considerable measure of research, and adaptation to exploit it. The Emergency with its vast demands for all types of modern equipment for defence has given a new emphasis to this problem.

67. It has already been mentioned that foreign assistance was the major factor in the improvement recorded this year in the balance of payments. External assistance authorised to India in the form of loans, grants and P.L. 480 assistance amounted to Rs. 652 crores, including Rs. 16 crores from the East European countries, in 1962-63 (April-March) as compared to Rs. 425 crores during 1961-62 (April-March). The rate of utilisation also increased significantly and at Rs. 447 crores was higher by about 32 per cent than last year; this included Rs. 33 crores of the assistance extended by the Soviet Union and East European countries. An important reason why the pace of utilisation of foreign aid was quicker in 1962-63, as compared to previous years, was that the share of untied assistance especially from the U.S.A., had increased considerably. According to information available so far, additional assistance of the order of Rs. 143 crores has been authorised during April-June 1963. Moreover, the substantial increase in the quantum of aid authorised during the period was coupled with a softening of terms and conditions. A considerable portion of the loan assistance received during the year came from the U.S. and I.D.A. which carried only a small service charge of ¾ of 1 per cent and no interest payment and is repayable over a period of 40-50 years including a grace period of 10 years.

68. As noticed earlier, the bulk of the assistance authorised during the financial year 1962-63 was extended by the members of of the Aid India Consortium. It will be recalled that the Consortium members had promised to make available the assistance of Rs. 1,125 crores for the first two years of India's Third Plan: of this, Rs. 1,042 crores were authorised by the end of April 1963. At the eighth meeting of the Consortium held at Paris in June 1963, the members promised further assistance of the order of Rs. 436 crores for the third year of the Plan (196364) and at its subsequent meeting on August 7, 1963, the Consortium increased its total commitment for the year to Rs. 501 crores; this compares with the

estimated requirement of Rs. 598 crores. It is encouraging to note that the Consortium members have recognised the need for a larger proportion of aid being made available in the form of non-project assistance with as much of the aid as possible in the form of grants or long-term loans at low rates of interest. While a larger component of untied aid is of help in securing raw materials in the cheapest markets and ensuring a fuller working of existing capacity and generally in the flexible adaptation of the investment programme, it places a greater responsibility on the Government, to utilise the untied aid for such augmentation of production as would be of help to the balance of payments situation.

69. Besides the assistance' extended by the foreign governments and international institutions, efforts continued to be made to encourage the flow of private capital from abroad. Consents for issue of capital to non-residents, which broadly reflect the investment intentions, granted during 1962 were higher at Rs. 47 crores as against Rs. 34 crores and Rs. 19 crores in 1961 and 1960, respectively. The services of the Indian Investment Centre are being increasingly utilised by foreign as well as Indian entrepreneurs seeking foreign collaboration agreements. A Committee has also been set up by Government to evolve some definite guide lines for policies in regard to foreign collaboration agreements.

Conclusion

70. The foregoing review of the developments in the Indian economy during 1962-63 indicates the kind of problems the Emergency has created for the country. The economy has now to adjust itself on a long-term basis to the needs of an enhanced defence budget and of continued development without which a large defence effort cannot be sustained. Whatever the measure of external assistance that may be available, the country has to endeavour to build up the maximum defence potential that may be practicable out of its own resources, in addition to maintaining the tempo of development.

71. In the sphere of industry, bottlenecks do arise from time to time but with experience and better planning their incidence can be reduced and brought under control. It is in sectors like agriculture and exports, however, that the country has yet to reach assured and high rates of growth. These sectors remain vital to the economy.

72. Agricultural output is almost the sole or the overwhelmingly important source of income for the major part of the

population. No significant increase in the general standard of living can come about unless the rate of development in the agricultural sector is much higher than it is now. Further, as agriculture supplies the preponderant proportion of wage goods to the non-agricultural sector and as a large part of industrial raw materials and exports is still based on agriculture, variations in agricultural output have an important impact on the cost of living and industrial costs in general and on exports in particular.

73. The enhanced needs of the economy for defence and development demand every ounce of effort for resource mobilisation. Every sector of the economy has to make its contribution. Since, however, the available surplus for such purpose in the agricultural sector is still very low, the major part of the contribution has. to come from the rest of the economy. There is, however, a limit beyond which the non-agricultural sector cannot supply additional resources without endangering the incentives to save and invest in this sector. There is, therefore, at this point, no substitute for a larger and more vigorous drive on the part of the State Governments to mobilise resources from the agricultural sector.

74. The use of the tax instrument in a purposive and pervasive manner has to be supported by a resilient monetary policy. Control over the overall volume of credit operated according to the long and near-term requirements of the economy has to be exercised through a combination of devices to regulate the cost and availability of credit and direct regulation of the volume of credit in sensitive sectors. This is a task in which flexibility in the sense of a more frequent use of established practices of control as well as of innovations to suit the changing needs of the situation have both to play a part. Over the year, the Rank has operated its technique of the slab system of lending rates coupled with selective reduction of the cost of credit for particular sectors', and the apparatus of selective credit control to provide the requisite flexibility in the Bank's policy.

75. Apart from the actions of the central bank, a good deal depends upon the way in which the rest of the banking system itself responds to the needs of the 'situation. By and large, the initial response has been satisfactory; but more needs to be done. Efforts at deposit mobilisation have to be stepped up further. Innovations whether for this purpose or for the purpose of making the best possible use of available bank resources have to be tried. There is evidence that the Indian banking system is gearing itself to these tasks. In the difficult times ahead the role of the banking system will remain crucial.

II. DEVELOPMENTS IN COMMERCIAL BANKING

76. This and the subsequent two sections are concerned with institutional developments in commercial and co-operative banking. In the field of commercial banking, the Bank continued its efforts to consolidate and strengthen the banking structure in a variety of ways, particularly through its system of supervision and periodic inspection. The process. of weeding out uneconomic and inefficient units through their merger or amalgamation with stronger units made further progress during the year; and the emphasis in branch licensing policy was increasingly laid on encouraging the opening of branches in areas hitherto lacking banking facilities. Legislation was enacted to strengthen the capital base and the liquidity of banks, to liberalise Reserve Bank credit to the export sector and to enable the Reserve Bank to collect credit information from banks. Measures were also taken to liberalise medium-term finance for exports from the State Bank of India and the Refinance Corporation for Industry. The Bank continued to play an active part in rendering financial and other assistance to the specialised institutions providing term finance to industry in order to enable them to improve their usefulness and to function more effectively.

Banking Legislation

77. Last year's Report had stressed the imperative need for banks to augment their capital and to improve their liquidity, for the proportion of each to deposits had recorded an almost continuous decline in the past decade or so. The Banking Companies Act was amended to make it obligatory for *all* banks to build up their capital funds. Prior to this amendment, Indian banks were required to transfer to reserves not less than 20 per cent of their published profits until the reserves together with any premium on shares equalled the paid-up capital; but no such statutory obligation was imposed on the foreign banks. Under the Banking Companies Amendment Act, 1962—which came into force on September 16, 1962—Indian banks have to continue to transfer to the reserve fund, even after it equals the paid-up capital, a sum not less than 20 per cent of the profit disclosed in the profit and loss account before any dividend is declared. Banking companies incorporated abroad are now required to deposit with the Reserve Bank each year an amount calculated at 20 per cent of the annual profits arising from all business transacted through their Indian branches. However, an exemption from the above stipulations may be granted for a specified period to both Indian and foreign banks, whose capital and reserves, or deposits in lieu of them, are deemed to be adequate in relation

to their deposit liabilities. Further, the Amendment Act has also raised the minimum paid-up capital for a new Indian banking company to Rs. 5 lakhs from the limit of Rs. 50,000, which was fixed in 1936 and which in the light of changes that have taken place subsequently was considered to be too low.

78. In regard to the liquid assets to be maintained by banking companies in India, Section 24 of the Banking Companies Act, 1949 was also amended requiring all banks to maintain at the close of business on any day a minimum amount of liquid assets (comprising till money, gold, excess over statutory reserves, balances with the State Bank of India and with notified banks, and unencumbered approved securities) equal to not less than 25 per cent of their demand and time liabilities in India, exclusive in the case of scheduled banks of the balances maintained by them in terms of Section 42 of the Reserve Bank of India Act and in the case of non-scheduled banks of the cash or balances maintained by them in terms of Section 18 of the Banking Companies Act. The amended Section 24 would come into force two years after the commencement of the Banking Companies (Amendment) Act, 1962, i.e., in September 1964. Simultaneously with the upward revision of the minimum liquid assets, the provisions. concerning the maintenance of cash reserves by banks were amended to reduce somewhat the amount of reserves to be so kept. Section 42(1) of the Reserve Bank of India Act was also amended so that a scheduled bank would have to maintain with the Reserve Bank an average daily balance of 3 per cent of its total time and demand liabilities in India as against 5 per cent of demand and 2 per cent of time liabilities previously required. As a result of this change, which became effective on September 16, 1962, the statutory minimum balances of scheduled banks with the Reserve Rank were reduced to Rs. 65.8 crores during the week ended September 21, 1962, thus freeing about Rs. 6 crores of the cash reserves. Furthermore, the Reserve Bank has been empowered to vary the reserve requirements of scheduled banks between 3 per cent and 15 per cent of demand and time liabilities, thus replacing the existing provision which enabled the Bank to raise the statutory balance to a maximum level of 8 per cent and 20 per cent of time and demand liabilities, respectively. The cash ratio of non-scheduled banks was also changed by an amendment to Section 18 of the Banking Companies Act so as to require them to maintain with themselves or in current account with the Reserve Bank or its agencies, cash or balances to the extent of 3 per cent of their total demand and time liabilities in India, as against 5 per cent of demand and 2 per cent of time liabilities hitherto. The effect of these amendments is to split up the overall liquidity requirement of scheduled banks into

(i) statutory balances maintained with the Reserve Bank and (ii) other liquid assets including unencumbered approved securities. This segregation was intended to minimise the impact on security holdings of banks of any action to raise reserve requirements by ensuring that with every increase in reserve requirements the overall liquidity obligations were also correspondingly raised. When the amendment comes into force in September 1964, the overall liquidity ratio of scheduled banks (comprising cash on hand and balances with the Reserve Bank of India and other liquid assets) can be varied from 28 per cent to 40 per cent; in the case of non-scheduled banks, the ratio will be 28 per cent.

79. The other provisions of the Banking Companies Amendment Act vest power in the Reserve Bank to refuse a licence or to cancel the licence already granted to any bank incorporated outside India, if it appears to the Bank that the functioning of such a bank in India will not be in the public interest, amend Section 35B so as to make the provisos of Sections 309(3) and 387 of the Companies Act, 1956 inapplicable to banking companies, so that it is no longer necessary for them to obtain permission of the Government of India for payment of remuneration to the Chief Executive Officer or other directors and amend Section 51 which makes the provisions of Section 35A relating to the issue of directives by the Reserve Bank to banking companies in general applicable to the State Bank of India and its subsidiaries. The Act also provides that Sections 37 and 44B relating to suspension of business and sanctioning of schemes of arrangement with creditors or shareholders shall not apply to these banks.

Export Finance

80. In the context of the urgent need to boost the country's exports, the Reserve Bank began to accord preferential treatment to the export sector in the matter of credit facilities, thus enlarging the scope of the preferred sectors to include exports, besides small-scale industries and co-operatives. The Reserve Bank of India (Amendment) Act which came into force on September 15, 1962, empowers the Bank under Section 17 of the Act to extend export finance upto a period of 180 days as against 90 days hitherto. Following the amendment to Section 17 of the Act, the Bank introduced an Export Bills Credit Scheme, effective March 23, 1963, under which advances are made available to all licensed scheduled banks (including those which do not require a licence) , which are authorised dealers in foreign exchange, against their promissory notes repayable on demand and upon their

declarations of holdings of eligible usance export bills drawn in foreign currencies or Indian rupees and purchased/negotiated/ discounted by them. The minimum amount to be borrowed by a bank at a time has been fixed at Rs. 1 lakh. Advances under the 'Scheme will be within the overall ceiling limit fixed for the individual bank's borrowings from the Reserve Bank. However, a bank could borrow under the Scheme against declarations of holdings of eligible usance export bills in rupees at the Rank rate over and above its permitted level, provided it agrees to charge the exporter interest/discount/commission at a rate not exceeding $1\frac{1}{2}$ per cent per annum over the Bank rate on such export bills, i.e., currently at a rate not exceeding 6 per cent. The facility under the Scheme in respect of rupee export bills will be in force in the first instance upto September 30, 1963. Total limits sanctioned and the advances availed of upto the end of June 1963 amounted to Rs. 10.10 crores and Rs. 3.21 crores, respectively. The advances outstanding under the Scheme, touched their highest level on May 9, 1963, when they stood at Rs. 1.06 crores. There were no advances outstanding at the end of the year.

81. The question of liberaliing and improving credit facilities for exporters, particularly those engaged in developing overseas markets for the newer types of exports like engineering goods, and offering medium-term credit to importers abroad on. terms comparable to those offered by exporters elsewhere, was examined by the Study Group on Credit Facilities for Exporters, which reported in April 1961. In pursuance of the recommendation of this Study Group, the State Bank of India Act was amended authorising the bank to extend term credits to exporters or persons engaged in such business or trade, as may be specified by its Central Board, and to hold any negotiable instrument relating to or arising out of exports from India with a remaining maturity of more than six months, as collateral security for its loans. In implementing another recommendation of the Study Group, the Refinance Corporation for Industry launched, effective January 1, 1963, a scheme for refinancing medium-term export credits, i.e., credits for periods exceeding six months but not above five years, granted to exporters in the private sector by approved credit institutions which are also authorised dealers in foreign exchange. Pre-shipment credit will also be available if combined with post-shipment credit. This facility is available for exports of capital or engineering goods approved by the Corporation.

Industrial Finance

82. With the rising tempo of industrial activity and the increased stringency in the money market, there was an impressive

growth in the scale of operations of, and the magnitude of financial assistance provided by the major specialised institutions which cater to the needs of industry for term-finance, viz., the Refinance Corporation for Industry, the Industrial Finance Corporation of India, State Financial Corporations and the Industrial Credit and Investment Corporation of India. To meet the growing credit demands, all these institutions augmented their resources during the year by resorting to the capital market and/or by borrowing from the Government and the Reserve Rank; some of them also received sizeable assistance from abroad. In particular, the scope of functions of the Refinance 'Corporation for Industry and the State Financial Corporations was expanded.

***83. Refinance Corporation** for Industry:* With the increasing tightness in the money market, there was a marked expansion in the financial operations of the Refinance Corporation for industry. During the year, the Corporation sanctioned 105 applications for Rs. 15.70 crores as against 56 applications, for Rs. 9.30 crores in 1961-62. Disbursements too were larger, viz., Rs. 10.58 crores, as compared to Rs. 6.52 crores in 1961-62. The total sanctions and disbursements now stand at Rs. 36.16 crores and Rs. 20.64 crores, respectively. Various industries have been assisted, viz., cotton and woollen textiles, sugar, mechanical and electrical engineering, automobiles, basic metal industries, chemical and chemical products, synthetic fibres, paper, dyestuffs, coal mining and hotels. The Corporation borrowed a further Rs. 9.5 crores from Government during this year. The pace of recent sanctions indicates that the balance of Rs. 9.5 crores which is as yet unutilised out of the Rs. 26 crores earmarked for the Corporation would need to be drawn sooner than was foreseen even a few months ago. Government have been apprised of the position and of the need to provide the Corporation with adequate funds so that it can continue to render useful service.

84. Even more important than the increase in operations was the considerable expansion of the scope of the Corporation's functions to bring it into more intimate relationship with developmental efforts at two crucial points. Reference has been made earlier to the scheme of refinancing medium-term export credits launched by the Corporation in January 1963. The other new line of activity entrusted to the Corporation is the administration of the Guarantee Scheme devised by the Govermnent of India to facilitate the utilization of the loan of $35 million from the International Rank for Reconstruction and Development for the coal industry in the private sector. Earlier the Corporation had agreed to extend its refinancing facilities to banks etc. giving rupee term loans to mining units which were eligible for this

loan. But certain difficulties seemed to hold back some banks from assisting this industry despite the facility for refinance. The new Guarantee Scheme, which came into force from April 9, 1963, confers a substantial protection on the banks, as losses arising in these advances will be shared between them and Government in the ratio of 35: 65.

85. State Financial Corporations: The outstanding loans and advances of the State Financial Corporations (including the Madras Industrial and Investment Corporation) rose in the year ended 'March 1963 by a little over Rs. 8 crores. In pursuance of the amendments to the State Financial Corporations Act which came into effect from April 16, 1962, the facility to borrow from the Reserve Bank for periods upto 18 months and from the Refinance Corporation for Industry have begun to be utilised. Limits of Rs. 2.4 crores were sanctioned by the Reserve Bank to four corporations and Rs. 35 lakhs were outstanding at the end of June 1963. The Refinance Corporation also advanced medium-term credit of Rs. 97 lakhs to two corporations and Rs. 141 lakhs to the Madras Industrial and Investment Corporation. Four other corporations also augmented their resources by bond issues. The enhanced limit, viz., Rs. 20 lakhs upto which the corporations can now assist the public limited and co-operative concerns appears to have been utilised in a number of States and this is reflected in an appreciable rise in the loans sanctioned and disbursed during the year. The Bank, in pursuance of one of the recommendations of the Eighth Conference of the representatives of the, State Financial Corporations, constituted a Working Group in June 1962, to consider the steps to be taken to improve the usefulness of the corporations and to make them function more effectively. The investigations of this Group are nearing completion.

86. Industrial Finance Corporation of *India:* During the year ended June 1963, the outstanding loans and advances of the Industrial Finance Corporation of India recorded an appreciable rise of Rs. 10 crores,. The Corporation also made further progress in (i) developing its underwriting operations jointly with other institutions or brokers, besides approving for the first time direct subscriptions to the stocks and shares of industrial concerns which were facilitated by an amendment of Section 23(1) (f) of the Corporation's Act in December 1960, (ii) guaranteeing deferred payments in respect of machinery and equipment to be imported from abroad and (iii) guaranteeing foreign currency loans. The Corporation augmented both its rupee as well as foreign currency resources, the former through the issue of 4½ per cent Bonds 1974 for Rs. 6 crores and the latter through a loan of 50 million NF (approximately Rs. 5 crores) from the Banque Francaise Du

Commerce Exterieur of Paris, for making sub-loans to eligible industrial concerns in need of foreign exchange and an allocation of yen credit of approximately Rs. 1 crore from the Government of India out of the yen credit available with them.

87. Industrial Credit and Investment Corporation of India: The operations of the Industrial Credit and Investment Corporation of India recorded a striking advance in the financial assistance approved as well as disbursed during 1962. The total assistance approved during the year of Rs. 19.60 crores was more or less evenly distributed as between rupee assistance-in the form of loans, underwriting and direct subscriptions to shares and debentures-and foreign currency loans. On the resources side, the Corporation negotiated a fifth line of credit of $30 million from the World Bank and another line of credit of DM 23 million, besides the one for DM 5 million under negotiation from the Reconstruction Loan Corporation of the Federal Republic of Germany.

Financing of Small-scale Industries

88. Efforts are continuously being made to augment the flow of commercial bank credit to the small-scale industrial sector, through liberal credit facilities from the Reserve Bank and the Government guarantee for sharing losses on advances granted to small-scale industrial units. But the problem is so vast and difficult that the progress in the direction of providing adequate finance for this sector has necessarily been slow. The Bank's policy of granting preferential treatment to this sector, notwithstanding a tighter monetary policy, has been referred to earlier. In addition, the Bank is keeping in touch with developments regarding the setting up of Small Industries Corporations and Industrial Development Corporations in several States with a view to bringing about co-ordination of activities between these and other institutions. Further, with a view to assessing the nature and extent of financial, technical and marketing problems of engineering industries, the Bank in collaboration with the Jadavpur University conducted a comprehensive survey of small engineering units in Howrah.

89. The Bank has been administering the Government of India's scheme for the guarantee of advances granted by specified banks and financial institutions to small-scale industries. On completion of two years of the experimental operation of the scheme in June 1962, the Bank submitted a comprehensive review of its working. The scheme has now been placed on a permanent footing and its area of operations extended from January 1963,

from 52 selected districts to the entire country. During the year 1962-63, the scheme made further progress; guarantees issued under it aggregated Rs. 9.7 crores as against Rs. 6.3 crores during 1961-62, the total outstanding guarantees as on June 30, 1963 being Rs. 9.80 crores. Although applications for guarantee continued to be received largely from the State Bank, other institutions have been increasingly availing themselves of this facility.

90. The State Bank of India's scheme for the co-ordinated provision of credit facilities to small-scale industrial units, continued to function satisfactorily during the year. The number of units assisted, limits sanctioned as well as outstanding, recorded increases. The subsidiaries of the State Bank have also made good progress in helping small units. The scheme of providing medium-term finance to small units and of granting assistance to units under the Guarantee Scheme entered into with the National Small Industries Corporation made, however, only a limited advance.

Strengthening the Banking Structure

91. The process of strengthening the banking structure through a process of merger and amalgamation of the weaker units with stronger institutions, which received a new impetus and urgency following the failure of certain banks in 1960, was continued during the year. During 1962-63, three banks, of which one was a scheduled bank, were amalgamated with two other scheduled banks, and in addition, the assets, and liabilities of six non-scheduled banks were taken over by three scheduled banks, raising the number of banks merged and/or amalgamated since September 1960 to 36 and those whose assets and liabilities were taken over by other banks to 10. In addition, a non-scheduled bank was granted a moratorium, in order to facilitate its reconstruction and amalgamation in terms of Section 45 of the Act, thus, bringing the number of banks to which moratorium has been granted so far to 40. As a part of the process of integration, as well as to effect organisational improvements and economies by co-ordinating the banking services provided by subsidiaries of the State Bank operating within the same State, the State Bank of Bikaner took over the assets and liabilities of the State Bank of Jaipur as of January 1, 1963. The amalgamated unit is functioning under the name of State Bank of Bikaner and Jaipur. A number of uneconomic units were weeded out by allowing them to go into liquidation. Certificates under Section 44(1) of the Banking Companies Act were issued to six non-scheduled banks to go into voluntary liquidation, and another bank which was

earlier granted a moratorium was sanctioned a scheme of arrangement and was ordered to be dissolved.

92. In pursuance of the objective of establishing sound banking practices in the country through the system of annual inspection of banks, 47 scheduled and 105 non-scheduled banks were inspected during the year in terms of Section 35 of the Banking Companies Act. Among these, the inspection of three non-scheduled banks was undertaken in connection with the issue of a certificate to two banks for voluntary winding up of business under Section 44(1) of the Act and to the court in respect of a scheme of arrangement between a banking company and its creditors under Section 44B of the Act. In addition, the scrutiny of the affairs of 23 banks was carried out for other purposes such as determining the price of shares of a bank on the basis of intrinsic or break-up value, the issue of a certificate under Section 49B, assessing the progress made in the eradication of undesirable features, enquiring into the causes of the erosion in deposits, etc.

93. By way of follow-up of the inspections carried out during the year, periodical progress reports, showing the corrective action taken to remedy the defects pointed out in the course of the inspection, were called for from 48 banks during the year. There are at present 124 banks submitting monthly progress reports and 83 banks submitting quarterly progress reports. In suitable cases informal discussions with representatives of banks were held at which stress was laid on taking expeditious steps for removing the major defects in the working of the banks concerned. In cases where a stricter control over the affairs of a bank was called for, suitable directions were issued to them for compliance and in certain cases observers were also deputed to attend the Board/Committee meetings of banks as also to carry out a periodical scrutiny of their current affairs. The development and maintenance of sound banking traditions and techniques by banks themselves is most important for the growth of a sound banking system and in this respect external inspection is no substitute for internal efficiency and integrity. The chief executives of banks by virtue of the key position they hold, have a vital role to play in shaping the code of banking ethics and perfecting the tools and techniques employed in their institutions. The small and the medium-sized banks have special difficulties and problems of their own and in recognition of these, the Reserve Bank organised seminars for the chief executives of small and medium-sized banks so as to provide them with opportunities for discussion and exchange of views on their 'live' problems, not only among themselves but also with the officers of the Reserve Bank. Details of these seminars are given in Section IV.

94. During the year, fourteen banks were granted licences to conduct banking business in India. Of these, only one bank—a foreign bank-applied for a licence to commence banking business in this country while the rest were Indian banks which have been transacting banking business. One Indian bank which was carrying on banking business in the country was refused a licence while the licences issued to two banks were cancelled; one of these was a foreign bank, which was ordered to be wound up, and the other, an Indian bank, had transferred its assets and liabilities to another bank. At the end of the year, the total number of licensed banks and those to which licences have so far been refused or cancelled stood at 77 and 154, respectively.

95. During the year, two banks were included in the Second Schedule to the Reserve Bank of India Act, while three banks were excluded from it- two Indian banks as a sequel to their amalgamation and a foreign bank on the cancellation of its licence to carry on banking business.

Branch Expansion Policy and Programmes

96. The branch licensing policy of the Bank has been directed over the years so as to regulate the opening of new offices of banks in such a manner as to assist the sound development of the banking system and to enable it to meet the growing requirements of the country. Although the development of branch banking in the country during the past decade, as judged by the substantial increase in the number of office of banks, has been satisfactory, the expansion of credit facilities in areas not hitherto served by banks, has not been adequate. There was, therefore, an urgent need, in the public interest, for the extension of banking facilities in areas not served by any commercial bank. The opening of new branches in such areas as also in suburban areas would, it was felt, not only assist mobilisation of deposits but would also provide better service to the community. In considering applications for opening new offices, special stress is now laid on the provision of banking facilities at unbanked centres in addition to places where banking facilities can be further expanded' with advantage to the economy.

97. Reference was made in last year's Report to the second phase of the Branch Expansion Programme of the State Bank of India and its subsidiaries during the quinquennium July 1, 1960 to June 30, 1965 under which the State Bank and its subsidiaries are to open 145 and 155 offices, respectively. The expansion programme of the State Bank of India and its subsidiaries showed considerable progress during the year. The State Bank of India opened 76 branches (including 16 opened outside the expansion programme) and its subsidiaries opened 148 branches (including 18 opened outside the expansion programme from July 1, 1960, i.e. the date from which the second phase of the expansion programme of the State Bank of India commenced, to the end of June 1963. The total number of offices including pay offices of the State Bank of India and its subsidiaries as at the end of June 1963 now stands at 1,040 and 541, respectively.

98. The other scheduled banks (i.e. other than the State Bank of India and its subsidiaries) also made good progress in the opening of new offices. Besides an addition of 38 offices following the merger and/or taking over of the assets and liabilities of non-scheduled banks by scheduled banks and of 33 offices as a result of the inclusion of banks in the Second Schedule, other scheduled banks cpened as many as 140 new offices during the year as against 145 offices opened in the previous year. Besides,, five new offices were opened abroad. On the other hand, following the nationalisation of banking in the Union of Burma effective February 23, 1963, seven offices of five Indian banks operating in that country were taken over by the Government of Burma. The statutory deposits of Kyats 5 lakhs (Rs. 5 lakhs) of each of these banks have since been returned and claims for compensation have been lodged in respect of the properties owned by them. Thus, the total number of offices of all scheduled banks rose over the year by 314 to 4806; of the new offices opened during the year, 57 were located in places which were hitherto not served by banks. In addition, there were nearly 550 offices of non-scheduled banks functioning in different parts of the country.

Miscellaneous

99. *Clearing Houses:* In order to quicken the flow of banking transactions as well as to widen the range of banking facilities provided by banks, as a part of the larger programme of stimulating the growth of the banking habit in the wuntry, the Reserve Rank had suggested that the State Bank and its subsidiaries should establish clearing houses at centres with a population of 1 lakh and over. In pursuance of this suggestion, the State Bank and its subsidiaries opened clearing houses at five more centres during the year, raising the total number of clearing houses in the country from 69 to 74, of which 56 are managed by the State Bank and another 10 run by its subsidiaries. Besides opening fresh clearing houses, clearing facilities both at the new and old centres are being thrown open to a larger number of banking institutions. At all the seven centres managed by the Reserve Bank and at 35 centres administered by the State Bank,

the post office savings banks were admitted as sub-members in order to popularise the post office savings banks. Another noteworthy feature was the amendment of the rules of the clearing houses managed by the State Bank and its subsidiaries to provide for the admission of all non-scheduled banks, whether licensed or unlicensed, as sub-members; prior to the amendment of the rules, unlicensed non-scheduled banks could not be enrolled as sub-members of the clearing house.

100. *Credit Information:* Banks in India do not normally exchange information with one another regarding credit facilities sanctioned by them to their constituents. In the absence of information regarding the aggregate amount of credit obtained by a constituent from all banking companies, it was possible for a constituent to obtain financial accommodation from a number of banks to an extent not warranted by his credit-worthiness. To enable the banks to ensure that the grant of credit to individual parties was not excessive or beyond the safety limit, it was considered desirable to provide a machinery to pool the information relating to the total banking commitments of their constituents. With this end in view, the Reserve Bank of India Act, 1934 was amended during the year so as to empower the Reserve Bank to collect credit information from individual banks and notified financial institutions and to supply to them on application the relative information in a consolidated form. Under the newly-introduced Section 45C(1) of the Reserve Bank of India Act, all scheduled and non-scheduled banks have been directed to submit to the Reserve Bank quarterly statements relating to credit information, in respect of secured limits of Rs. 5 lakhs and above and unsecured limits of Rs. 1 lakh and above, beginning from the quarters ended September and December 1962, respectively. Notified financial institutions have also been directed to submit the above quarterly statements commencing from March 1963. Credit information based on the statements is being furnished to banks which apply for it.

101. *Agreements with Pakistan:* At the meeting of the implementation Committees set up under the Banking and Movable Properties Agreement, held in March 1962 in New Delhi, the Pakistan Government had agreed to look into the cases of Indian banks which continued to be subjected to restrictions in respect of their assets in Pakistan. The Pakistan Government, however, do not appear to have taken any steps to mitigate the hardship caused to Indian banks. They have not been permitted by the authorities concerned in Pakistan to draw upon their accounts with the State Bank of Pakistan. The matter was referred to the Government of India in October 1962.

102. As regards the transfer of accounts on a matching basis from the non-agreed areas, of the total number of accounts received for verification by the two countries, those amounting to Rs. 8.74 lakhs were treated by the Reserve Bank as eligible for transfer to Pakistan while those amounting to Rs. 15.04 lakhs were treated as eligible for transfer to India by the State Bank of Pakistan. 117 accounts amounting to Rs. 3.25 lakhs were under verification of the Reserve Bank of India and 479 accounts aggregating Rs. 30.15 lakhs were under verification of the State Bank of Pakistan.

103. The Governments of India and Pakistan further decided to consider the question of transferring (i) balances in bank accounts in individual, joint or proprietary names of contractors, the documents relating to which were previously pledged with Government departments but were released subsequently, and (ii) shares of evacuee teachers of private educational institutions in the conjoint accounts of provident funds kept with commercial banks in the en *bloc* transfer areas in Pakistan, i.e. the erstwhile West Punjab Province and Bahawalpur State. A press note was issued by the Reserve Bank of India calling for applications in the prescribed form in respect of the accounts under the above categories before September 15, 1962. Applications were accordingly received from certain non-Muslim evacuee contractors for transfer of their security deposits from Pakistan to India; an application from a non-Muslim evacuee teacher of a private educational institution was also received by the Reserve Bank of India for transfer to India of his share in the conjoint account of his provident fund kept with a commercial bank in Pakistan. The above accounts have been referred by the Reserve Bank of India to the State Bank of Pakistan for verification and transfer to India. No such list of accounts has so far been received by the Reserve Bank of India from the State Bank of Pakistan.

104. In terms of Section 13 (3) of the Pakistan Banking Companies Ordinance, which was promulgated by the Government of Pakistan on June 7, 1962, foreign banks operating in Pakistan were required to maintain by way of paid-up capital and reserves an aggregate amount of Rs. 20 lakhs or 5 per cent of the total demand and time liabilities, whichever is higher. The entire amount was required to be brought from outside the country and deposited with the State Bank of Pakistan within six months from the date of the Ordinance. As the provisions would cause considerable hardship to Indian banks operating in Pakistan, the matter was taken up with the Government of Pakistan, which has since exempted banks from the operation of Section 13(3) of the Ordinance for a period of one year with effect from December 7, 1962.

III. DEVELOPMENTS IN CO-OPERATIVE BANKING

105. From its very inception, the Bank has been according preferential treatment to the agricultural sector and has made special efforts to revitalize and strengthen the co-operative machinery so as to facilitate and regulate the flow and expansion of credit to the sector. Two major developments in the sphere of agricultural finance during the year 1962-63 were the liberalisation of the Bank's lending policy to enable it to provide reimbursement finance in respect of medium-term loans granted by co-operatives and the establishment of the Agricultural Refinance Corporation to further reinforce the institutional machinery for purveying long-term credit.

Bank's Co-operative Credit Policy and Procedure

106. Hitherto, medium-term loans granted by the Reserve Bank had to be utilised entirely for making fresh loans and not, even in part, for reimbursement of the loans already advanced by the co-operative banks. This gave rise to certain operational difficulties, owing to which the banks were not able to avail of the full amount of medium-term loans sanctioned to them by the Bank. In pursuance of the recommendation of the Standing Advisory Committee, the Bank decided to extend to medium-term loans the refinance facility which is available in the case of short-term loans. But, since a substantial part of the finance for medium-term loans was to be made available by banks from their own resources, and the funds from the Reserve Bank are supplemental in character, the reimbursement facility was allowed to apex co-operative banks to the extent of 75 per cent of the fresh medium-term loans made by them over and above the level of their advances obtaining as on June 30, 1962, and the apex banks in turn reimbursed 75 per cent of the loans advanced by central co-operative banks over the basic level of the latters' own advances as on June 30, 1962. It was subsequently felt that such of the banks as had in the past granted medium-term loans from their own resources on a large scale and were unable to increase or maintain such levels of lending should not be handicapped by the new procedure. The Reserve Bank, therefore, agreed to make suitable relaxations in the reimbursement formula in genuine cases, so that its immediate application did not result in a reduction, as compared to previous years, of the quantum of medium-term loans made by the Bank to co-operative banks. Further, allocations of likely advances from the Reserve Bank were made for each of the State co-operative banks and communicated to them early in the year, in order to enable them to formulate in advance suitable programmes for the issue of medium-term loans. The

allocations for 1962-63 aggregated Rs. 15.60 crores as against Rs. 9.56 crores sanctioned to state co-operative banks during 1961-62.

107. In regard to the provision of short-term loans also, the need for certain changes in policy and procedure was felt. The benefit of additional credit limits recommended by the Committee on Co-operative Credit and accepted by the Bank was restricted to only such 'A' and 'B' class central co-operative banks which obtained accommodation on the strength of their second signature and was not available to banks borrowing under Government guarantee. In order to remove this anomaly, it was decided to extend the benefit of additional credit limits, with effect from July 1, 1963 to 'A' and 'B' class banks which are required to borrow under the guarantee of the State Governments.

108. The quantum of finance provided by the Rank to State co-operative banks went up substantially during the year. Credit limits for short-term purposes at the concessional rate of 2% below the Rank rate aggregated Rs. 163.95 crores as against Rs. 138.18 crores during the previous year (including special limits santioned under the Package Programme); of the total, more than two-fifths (Rs. 69.46 crores or 42%) were sanctioned against the guarantee of the State Governments, a little over one-half (Rs. 83.89 crores or 51%) against the security of co-operative paper bearing two good signatures, one of which was that of a State co-operative bank and the other of an affiliated district central co-operative bank and the balance (Rs. 10.59 crores or 7 per cent) against the pledge and repledge of Government or other eligible securities. Drawals during the year against these limits aggregated Rs. 203.38 crores, but the repayments were also large; in the result, loan outstandings were only Rs. 9.07 crores higher than on June 30, 1962. In addition, a short-term credit limit of Rs. 1.90 crores at the Rank rate was also granted to a State co-operative bank for meeting the working capital requirements of sugar factories, and loans to the extent of Rs. 11.53 crores at the Rank rate were extended to two banks for their normal banking operations against the pledge of Government securities.

109. During the year, an amount of Rs. 15.60 crores was set apart from the National Agricultural Credit (Long-term Operations) Fund for the purpose of advancing medium-term loans for agricultural purposes to State co-operative banks. However, on account of the change in procedure introduced during the year by which co-operative banks were encouraged to utilise their own resources also in addition to drawals of medium-term

loans from the Reserve Bank by reimbursement, in medium-term advances, there was some time lag in the receipt of applications from the State co-operative banks and the sanctioned amounts could not be fully availed of by them before the end of the year. The medium-term loans sanctioned by the Bank during the year aggregated Rs. 9.31 crores as against Rs. 9.56 crores for 1961-62; the utilization was Rs. 4.18 crores as against Rs. 7.39 crores in the previous year. The apparent shortfall is due to the initial effort which the banks had to make to adapt themselves to the new procedure. It is expected that the performance of the banks in this regard would be better in subsequent years. As regards medium-term loans at Bank rate to enable cultivators to purchase shares in co-operative sugar factories, the amount availed of by one State co-operative bank during the year was Rs. 9 lakhs as compared to Rs. 10 lakhs drawn during 1961-62.

110. In the sphere of handloom finance, there was a noticeable broadening of the demand for accommodation under Section 17(2) (bb) of the Reserve Bank of India Act, which is made available at the concessional rate of 1½ per cent below the Bank rate for financing the production and marketing activities of handloom weavers' co-operative societies. Credit limits sanctioned for this purpose amounted to Rs. 5.16 crores as against Rs. 3.11 crores in 1961-62. Besides, a small sum was also made available under Sections 17(2) (a) or 4(c) at the Bank rate, for financing ***bona fide*** commercial or trade transactions of certain handloom weavers' co-operative societies.

111. Consequent on the increase in the Bank rate from 4 per cent to 43 per cent with effect from January 3, 1963, the effective rate of interest on advances to State co-operative banks for financing seasonal agricultural operations and marketing of crops was also raised from 2 per cent to 2½ per cent. Similarly, the effective interest rates on medium-term loans for agricultural purposes and for the purpose of financing the production or marketing activities of the handloom industry were raised from 2½ per cent to 3 per cent. The enhanced rates were made applicable to advances granted on or after January 3, 1963 while outstandings of advances made upto January 2, 1963 continued to be charged at the rate of interest at which they were made.

112. In addition to the above credit facilities extended to co-operative institutions directly, the Reserve Bank continued to extend loans to State Governments to enable them to subscribe to the share capital of co-operative credit institutions. The amount sanctioned for the purpose was Rs. 4.94 crores covering 13 States. Like medium-term loans to State co-operative banks, these loans

are also made out of the National Agricultural Credit (Long-term Operations) Fund. No assistance has so far been extended to co-operatives from the National Agricultural Credit (Stabilisation) Fund.

113. The Reserve Bank continued to assist the Central land mortgage banks by subscribing to the debentures floated by them. During the year, 11 Central land mortgage banks floated ordinary debentures for a total amount of Rs. 19.24 crores. In 12 cases, there were shortfalls in public subscriptions to the debentures, and the Reserve Bank took up the shortfall or 20 per cent of the issue, whichever was less, to the extent of Rs. 2.52 crores. Rural debentures for Rs. 1.69 crores were floated by the Central land mortgage banks in Andhra, Maharashtra, Gujarat, Kerala, Madras and the Punjab. While the rural debentures floated by the Gujarat Central Land Mortgage Bank were oversubscribed and those floated by the Bombay State Land Mortgage Bank were fully subscribed, the others did not receive adequate response. The Bank contributed Rs. 93.43 lakhs to these debentures during 1962-63 in addition to the sum of Rs. 52.10 lakhs contributed by it in respect of the rural debentures floated during 1961-62. As in previous years, the contribution of the Reserve Bank to rural debentures was in the proportion of 8: 7 of the subscriptions received from the public. The debentures taken by the Reserve Bank carried interest at 4 per cent per annum while the rate of interest offered to individual subscribers was 5 per cent per annum.

114. Land mortgage banks, however, continue to be faced with the problem of obtaining adequate support for their growing needs of debenture floatation. With a view to assisting them the Life Insurance Corporation has now agreed to contribute, subject to certain conditions, upto 30 per cent of the aggregate issue of the debentures floated by the land mortgage banks subject to a maximum of Rs. 6 crores per annum during the remaining period of the Third Five Year Plan. Response to rural debentures is likely to be facilitated by the decision of the State Bank of India, both in regard to itself as well as its subsidiaries, to grant as an experimental measure for one year, advances to individuals in emergent cases against the security of rural debentures subject to certain conditions.

Co-operative Development Policy

115. Reference was made in last year's Report to the proposal for setting up a statutory corporation to strengthen the resources of co-operative and other financing agencies for financing special schemes for agricultural development. The Act providing for the establishment of the Agricultural Refinance Corporation came

into force on May 1, 1963. The Corporation will be mainly a refinancing agency concerning itself only with major agricultural development projects, whose needs cannot be satisfactorily met by existing institutional agencies either because of the magnitude of the investment involved or because of the special terms of repayment etc. that need to be allowed. The projects will have to be well defined, economically feasible and capable of close scrutiny and supervision. Assistance from the Corporation may be available for such schemes as (a) financing of the reclamation and preparation of land, so that, in particular, facilities for irrigation are fully utilised, (b) financing the development of special crops such as arecanut, coconut, cashewnut, cardamom, orchards, vineyards, tea, coffee, etc., (c) development of mechanised farming, use of electricity through tube-wells, pumping sets, etc. and (d) development of animal husbandry, dairy farming, pisciculture, poultry farming etc. Among other business, the Corporation is authorised to guarantee deferred payments in connection with the purchase of capital goods from abroad by eligible institutions. It will make its refinance facilities available to an eligible institution only against Government guarantees; but it may waive this requirement in cases where adequate collateral security is available. Central land mortgage banks, State co-operative banks and scheduled banks which are members of the Corporation are eligible for refinancing facilities. The Corporation, which started functioning on July 1, 1963 has an authorised capital of Rs. 25 crores, of which shares to the extent of Rs. 5 crores have been issued in the first instance. The Reserve Bank was expected to take up 50 per cent of the issue, the co-operative central land mortgage banks and apex co-operative banks 30 per cent, and scheduled banks, the Life Insurance Corporation, insurance and investment companies 20 per cent. Since the latter two categories of shareholders have taken up only 27.06 per cent and 13.56 per cent respectively, of the total shares issued, the Reserve Bank of India has made good the shortfall by subscribing to 59.38 per cent of the total issue. The shares of the Corporation have been guaranteed by the Central Government both in regard to repayment of principal and the payment of a minimum annual dividend of $4\frac{1}{4}$ per cent. The Government of India has provided an interest-free loan of Rs. 5 crores to the Corporation and, in addition, the Corporation is also authorised to raise resources by accepting deposits for periods exceeding twelve months and by issuing bonds and debentures. The management of the Corporation vests in a Board of nine directors, with a Deputy Governor of the Reserve Bank as its Chairman.

116. Certain financial aspects of co-operative marketing were discussed at a meeting convened by the Rank on March 15, 1963

at which the various alternative methods by which the co-operative marketing institutions could avail of financial assistance from the State Bank of India were brought to the notice of the Registrars of Co-operative Societies of all States. In particular, their attention was invited to the fact that the State Bank of India was willing to meet, as an experimental measure, all the different kinds of credit requirements of a limited number of marketing co-operatives in each State, including hypothecation credit.

117. With the establishment of the Deposit Insurance Corporation for insuring the deposits of commercial banks, the Bank's attention is now focussed on the question of insuring the deposits of co-operative banks in order to strengthen the co-operative credit structure. The Reserve Bank on the recommendation of the Standing Advisory Committee on Agricultural Credit has constituted a working group to examine the different aspects of the problem of insuring co-operative deposits.

118. A detailed reference was made in the last year's Report to the 'Intensive Agricultural District Programme' which aimed at an immediate increase in the production of foodgrains and other important crops in agriculturally favourable areas. The programme, which was initially introduced in one district each in seven States, has now been extended to selected districts in all the States. It is, however, too early to assess the results in these new areas, though the programme has generally been gaining momentum. Tangible results are noticeable in the seven districts initially selected where two or three years of field work have been put in. Nearly half of the villages in these districts have been brought under the programme and the area under farm plans is a little more than a third of the total area under cultivation of 61.34 lakh acres.

119. The Reserve Bank's role in the programme has been directed mainly towards strengthening and reorganising the co-operative credit structure to enable it to mobilise adequate resources and to orient its loan policy and procedure towards ensuring that the credit made available is applied to production. To this end, field studies continued to be made to assess the position of co-operatives and to make recommendations for their improvement. Officers of the Agricultural Credit Department have been actively associated with the district authorities in implementing the programme, particularly in matters relating to the provision of credit. On the basis of the experience gained in working the programme, the Reserve Bank has advised State Governments regarding the procedure co-operative banks should follow to

obtain financial assistance from it for implementing the programme. Emphasis has been laid on the need for the proper selection of areas, active association of co-operatives in the formulation of the programmes and on issuing loans and effecting recoveries during periods corresponding to the sowing and harvesting seasons in line with the operational needs of agriculture. The building up of a proper co-operative marketing agency with adequate storage capacity complementary to the production-oriented credit programme is also stressed. During the year, the Bank sanctioned special credit limits amounting to Rs. 2.80 crores to four State co-operative banks on behalf of eight affiliated central banks, as compared with Rs. 50.50 lakhs sanctioned on behalf of two banks in the previous year.

120. A seminar for the benefit of Rural Credit Officers of the Bank connected with the package programme was held at Madras on March 28-30, 1963 with a view to (i) pooling the experience so far gained in the various districts, (ii) analysing the difficulties faced, (iii) examining how far the objectives of the programme had been achieved and (iv) considering what further measures should be taken to make the scheme a success. The seminar was attended by officers of the Reserve Bank and the Government of India and by representatives of the Ford Foundation.

121. The Standing Advisory Committee on Agricultural Credit constituted by the Reserve Bank of India met twice dnring the year. Some of the important issues discussed at these meetings were (a) co-operative development in Assam, Madhya Pradesh, West Bengal and Punjab; (b) investment by co-operative banks in the shares of other co-operative institutions; (c) standards for audit classification of primary agricultural credit societies and (d) estimate of bad and doubtful debts of agricultural credit societies. The standards for audit classification of agricultural credit societies suggested by the Committee were generally endorsed by the Conference of Registrars held in Lucknow in February 1963.

122. With a view to ensuring speedy settlement of some important and outstanding issues and formulating operational policy for the ensuing co-operative year, discussions were held with the official and non-official representatives of the co-operative movement from the States of Gujarat, Kerala, Andhra Pradesh, Madras, Mysore, Orissa, Rajasthan, Uttar Pradesh, Jammu and Kashmir and Bihar during the period December 1962-June 1963. Besides reviewing the working of the co-operative movement in general in each State at these discussions, the

Bank indicated the minimum programme to be carried out by the States in the next few months in order to be eligible for adequate financial assistance from it.

123. The Bank continued to take keen interest in the development of handloom weavers' co-operatives and in the provision of adequate finance for their working capital needs. The ad *hoc* Advisory Committee on Handloom Finance met once during the year to discuss problems relating to the provision of finance to weavers' societies and to review the progress made in the working of the pilot 'scheme. A study of the implementation of the pilot scheme in selected districts in a few States revealed that the progress was not encouraging. One of the reasons for the slow progress was that the necessary staff, both technical and administrative, had not been appointed. One of the decisions taken at the meeting related to the extension of financial accommodation from the Reserve Bank for augmenting the working capital of the factory-type handloom weavers' co-operative societies functioning now in Kerala and Madras States subject to a ceiling of Rs. 500 per loom.

124. Consequent upon the coming into force of the National Co-operative Development Corporation Act, 1962 and Warehousing Corporations Act, 1962, the functions of the National Co-operative Development and Warehousing Board have been bifurcated and entrusted to two independent institutions, viz., the National Co-operative Development Corporation, which will perform all functions of the erstwhile Board other than those relating to warehousing, and the Central Warehousing Corporation, which will look after warehousing. This bifurcation was made mainly for administrative convenience, so as to secure an independent status to the Warehousing Corporation which is expected to impart the necessary drive at official and non-official levels for the execution of co-operative policies.

125. The Government of India set up in September 1962 the Second Working Group to study the working of industrial co-operatives, review their present position, recommend specific programmes and physical targets for the organisation of industrial co-operatives during the Third Five Year Plan period and make recommendations for allocating to industrial co-operatives a certain portion of the funds provided for the entire co-operative sector. The Working Group is expected to submit its report shortly.

126. The Third Plan schemes for co-operative development for 1963-64 were finalised during the year by the Planning Commission in consultation with the Government of India and the Reserve Bank. As in the previous year, the schemes related mainly to State

participation in the share capital of certain types of co-operative institutions, revitalisation of small-sized societies, organisation of marketing and processing societies, etc. Most of the State Governments also made provision for outright grants to the special bad debts reserves of the central banks and primary credit societies in pursuance of the recommendation of the Committee on Co-operative Credit.

127. The annual conference of the Registrars of Co-operative Societies held at Lucknow on February 7-8, 1963 and the State Ministers' Conference which followed it considered the centrally sponsored scheme for consumers' co-operatives (under which share capital contribution, managerial subsidy and other loans and subsidies are envisaged) and recommended, among other things, that the setting up of 200 wholesale stores and 4000 primaries envisaged under the scheme should be completed by the end of 1963-64 itself, in view of their importance in holding the price line in the context of the Emergency.

128. In pursuance of another recommendation of the State Ministers' Conference, the Government of India appointed a Committee on Co-operative Administration under the chairmanship of Shri V. L. Mehta to review the existing co-operative departmental set-up in the various States and to make recommendations for strengthening the co-operative administration in the country.

129. The Committee on Takkavi Loans and Co-operative Credit, appointed by the Government of India in July 1961, submitted its report in August 1962. The Committee has suggested that co-operatives should be accepted as the institutional agency for providing credit to agriculturists for normal production and land improvement purposes, subject to certain exceptions, and that the Government should gradually reduce the direct advance of such loans to cultivators. According to the Committee, the Government may issue direct loans to cultivators only for purposes which involve delay in yielding returns on the investment or involving financial risks and those of a technical nature; similarly, provision of distress finance should be the responsibility of the Government. The Committee further observed that funds earmarked by Government for advancing takkavi loans might be utilised for supplementing the resources of co-operatives. The views of the State Governments on the various recommendations of the Committee have been called for by the Government of India.

130. At a meeting held in July 1962 in the Planning Commission, it was decided to form working groups for co-operatives in various sectors. Accordingly, a study group on Fisheries

Co-operatives and a Working Group on Animal Husbandry and Dairying Co-operatives were set up in September and October 1962, respectively. The Groups have to examine, among other things, (i) the pattern of organisation, (ii) financial requirements and (iii) financial assistance from Government.

Inspection of Co-operative Banks

13 1. The programme of voluntary inspections of apex co-operative banks, central co-operative banks and other co-operative institutions initiated about a decade ago continued to be actively implemented. During the year under review, 346 co-operative banks, 22 large-sized credit societies and 3 other societies were inspected. Of the 2175 inspections carried out so far, 108 were of State co-operative banks, 1635 of central co-operative banks, 28 of industrial co-operative banks, 23 of central land mortgage banks, 9 of co-operative sugar factories, 8 of State handloom weavers societies, 3 of urban banks, 352 of large-sized credit societies and 9 of miscellaneous societies. The implementation of a programme of inspections of this magnitude has been rendered possible mainly as a result of the opening of regional offices of the Agricultural Credit Department of the Rank in the various States. With the opening of two more regional offices, one at Bhubaneswar in August 1962 and the other at Srinagar in November 1962, the programme of opening a regional office in each of the States has been completed.

IV. EDUCATION AND TRAINING OF’ BANKING PERSONNEL

132. The growth of a sound banking system depends not only on the strengthening of the institutional structure but also on the development of efficient techniques and procedures and the improvement of the quality and standards of management and staff; in this task the education and training of banking personnel has a crucial role to play. For almost a decade now, the Bank has been sponsoring and conducting, regularly and on systematic lines, appropriate training courses for different categories of personnel of both commercial and co-operative banks. In addition’, the Bank has recently started training programmes for its own staff. The demand for trained and skilled banking personnel has been rapidly growing with the functional and geographical expansion of the activities of banks. To meet this increasing demand, several commercial banks, either individually or in collaboration with others, have established (or are in the process of organising) training colleges or schools for

their staff, designed to provide elementary training to initiate their new entrants to the ways of banking and training of a more advanced type to their senior staff-supervisors and executives.

133. The question of instituting a scheme for training its own staff was being considered by the Bank for some time. Till recently, besides providing training to new recruits in the clerical grade through Personnel Officers at Bombay, Calcutta, Madras and New Delhi, the Bank has been deputing a few members of the supervisory staff to the intermediate and senior training courses established for the benefit of the commercial and co-operative bank staff. With the continuous increase in the Bank's staff, and because of the limited number of persons it could depute for training at the commercial and co-operative bankers' colleges, the Bank has now decided to establish regular training courses, at different stages, for different categories of its own staff. Zonal training centres are being established at Bombay, Calcutta, Delhi and Madras for imparting training to the new entrants as well as to those clerical staff who have been in the Bank's service for some years, The Zonal Training Centre at Bombay was set up during the year and has conducted three courses for the clerical and other staff. It is also decided to set up a Staff Training College at Madras which will, to begin with, conduct short training courses for the supervisory staff, viz., for Sub-Accountants and Junior Officers Grade II. The syllabus will mainly cover the functions and activities of the Bank in its various departments and other subjects such as essentials of the law and practice of banking with which the employees of the Bank should be familiar. In addition, the College will conduct from time to time *ad hoc* courses for the supervisory staff and organise seminars for executives of commercial and co-operative banks.

134. The Bankers' Training College, which was started in September 1954 for imparting training in practical banking to the supervisory staff of commercial banks in India, has so far conducted 40 senior courses in which 1,019 officers have received training. The intermediate course, intended for officers of commercial banks who are, so to say, second in command at their various offices, was introduced in 1960 and 13 such courses have so far been held imparting training to 295 candidates. Besides these general courses in commercial banking, specialised courses in industrial finance and foreign exchange have also been established.

135. Three courses in industrial finance have been held and 64 candidates drawn from the various State Financial Corporations and commercial banks, which have been included for

refinance facilities by the Refinance Corporation for Industry, have been given training in these courses.

136. As more and more Indian banks were participating in foreign exchange business, and as officials in these banks did not have enough training and experience in this line of business, the Seminar organised by the Reserve Bank of India at the Bankers' Training College in June 1961 to evaluate the various training courses at the College recommended the introduction of a course on foreign exchange. The Advisory Council of the Bankers' College accepted the recommendation of the Seminar, and a course on foreign exchange was accordingly introduced in the College during the year under review. The course is of six weeks duration and is held once a year. The first course which commenced on September 17, 1962 concluded on October 27, 1962. Twenty-two candidates drawn from various banks received training at this course.

137. As a further step in promoting sound banking techniques and procedures, the Reserve Bank of India initiated a programme of seminars for chief executives of banks. The first seminar was held in Madras in 'March 1963 for the chief executives of small banks in the Southern region. The chief executives of 29 banks mostly with deposits up to Rs. 1 crore each participated in it. The second seminar was held again in Madras in May 1963. The chief executives of 32 banks, again mostly with deposits upto Rs. 1 crore each, took part in it. The banks were drawn from all over India. The third seminar was held in July 1963 at which invitation was extended to, besides the executives of small banks, to those of the medium-sized banks. The chief executives of 27 banks, from various parts of the country, mostly with deposits upto Rs. 10 crores, participated in the seminar. The seminars provided an opportunity for the chief executives of the banks to exchange views among themselves and with the officers of the Reserve Bank and some of the bigger commercial banks on subjects of common interest. The seminars discussed a number of subjects such as steps to be taken for mobilising savings of the people in semi-urban and rural areas, procedures, techniques and safeguards adopted by banks in their investment and lending operations, internal controls and inspections, legal provisions concerning the working of banks and their relationship with the Reserve Bank. Emphasis was laid on reorientation of procedures and techniques so that small banks may achieve the necessary measure of strength and efficiency and adopt a progressive outlook. The officials of the Reserve Bank also held discussions with the chief executives of the banks regarding specific difficulties faced by them in the management of their respective banks.

138. Mention was made in last year's Report that the administration of the training schemes of co-operative personnel was transferred from the Central Committee for Co-operative Training (set up by the Reserve Bank jointly with the Government of India) to the National Co-operative Union of India with effect from July 1, 1962. For the eight years ended June 1962, 623 officers had been trained or were under training in the senior officers' course, 1625 in the intermediate officers' course, 4245 in the block level co-operative officers' course, 1561 in the course on co-operative marketing, 452 in the course on land mortgage banking and 173 in the course on industrial co-operation. Besides, in the subordinate or junior training centres conducted by State Governments or co-operative institutions under the Central Committee's scheme, more than 27,000 junior officers had completed training and about 6,000 were under training by the end of March 1962. With the abovestated transfer of the training centres, the Reserve Bank is no longer directly concerned with the administration of any co-operative training centre. The Rank is, however, represented on the Committee for Co-operative Training set up by the National Co-operative Union of India.

139. The Agricultural Credit Department of the Bank continued to provide facilities for study to Registrars of Co-operative Societies and other senior officers of co-operative departments of State Governments. Two Registrars-designate, one Joint Registrar and about 20 Deputy Registrars were given study facilities in the Agricultural Credit Department during the year. The Bank has also been organising seminars for the benefit of the inspecting officers of the Agricultural Credit Department undertaking the inspection of co-operative banks. During the year, six seminars were held, bringing the total number of such seminars held to 8.

140. Mention was made in last year's report of the progress of the Co-operative Film Project undertaken by the Bank with the help of the Canadian Government under the Colombo Plan for the production of films and film-strips for use in co-operative training centres. Under the Project, 12 films and 21 film-strips were produced completing the revised schedule of production.

V. ACCOUNTS AND OTHER MATTERS

141. For the 1962-63 accounting year, the Bank's income, after making statutory and other provisions, amounted to Rs. 56.05 crores-an increase of Rs. 2.07 crores over the income for the previous year. Total expenditure, comprising mainly

establishment expenses, provision for sundry liabilities and contingencies, also rose but by a smaller amount (Rs. 1.07 crores) to Rs. 11.55 crores. The net profits available for transfer to the Central Government were thus slightly higher at Rs. 44.50 crores than in 1961-62 (Rs. 43.50 crores) . The increase in income during the year stemmed mainly from a rise in interest earnings on rupee securities and in discounts on treasury bills, the former reflecting not only a larger investment portfolio but also the higher rates of interest on the new loans floated during the year.

142. In view of the steadily rising draft on the National Agricultural Credit (Long-term Operations) Fund (and this is expected to grow because of the liberalisation of the medium-term credit facilities to co-operatives, referred to in Section III) the contribution to this Fund was stepped up further this year to Rs. 12 crores; it was Rs. 11 crores in 1961-62 and Rs. 10 crores in 1960-61. A sum of Rs. 1 crore was contributed to the National Agricultural Credit (Stabilisation) Fund as in the previous year.

143. The rise in expenditure amounting to Rs. 1.07 crores was mainly under the heads "Establishment" and "Agency Charges". The increase under "Establishment" was due to a revision of pay scales of Classes III and IV staff under the Award of the National Industrial Tribunal (Bank Disputes) and the increase under "Agency Charges" was due to increased commission paid to the State Bank of India and its subsidiaries on account of a larger turnover of Government transactions.

Auditors

144. 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 (15)-BC/62 dated October 5, 1962 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

The Central Board

145. Shri C. S. Divekar was appointed as a Deputy Governor of the Bank for a period of three years, from November 12, 1962. Shri D. N. Mitra and Col. B. H. Zaidi retired as Directors from the Central Board of the Bank on the expiry of their term of office on January 14, 1963. The vacancies were filled by the Government of India by the renomination of Col. B. H. Zaidi and the nomination of Shri C. P. N. Singh as Directors of the Central

Board in terms of Section 8 (1) (c) of the Reserve Bank of India Act, 1934. The Board wish to place on record their high appreciation of the valuable services rendered by Shri D. N. Mitra during his long association with the Bank.

146. The Central Board of Directors met six times during the year-thrice in Bombay and once each in Calcutta, Madras and New Delhi. The Committee of the Central Board held fifty-two meetings, of which 3 each were in Calcutta and New Delhi, one in Madras and the rest in Bombay.

Local Boards

147. Shri D. N. Mitra and Sir John Douglas K. Brown resigned their membership of the Eastern Area Local Board and in terms of Sub-section 3 of Section 12 of the Reserve Bank of India Act, the vacancies were filled by the Central Board by the nomination of Shri C. P. N. Singh and Mr. A. D. Ogilvie with effect from March 4 and April 29, 1963, respectively.

Opening and Closing of Offices or Branches by the Reserve Bank

148. Mention has already been made in Section III of the opening of two regional offices of the Agricultural Credit Department at Bhubaneswar on August 16, 1962 and at Srinagar on November 12, 1962, in pursuance of the Bank's policy of establishing offices of this Department in each of the States. Besides, a Public Debt Office was established at Jaipur on July 16, 1962 to take over the issue and management of the Rajasthan Zamindari Abolition Bonds which work was hitherto attended to by the Delhi Office, as well as the payment of instalments on Jaipur enfaced bonds which was until then a function of the Jaipur Treasury. It is intended that the Jaipur Office would, in course of time, function as a full-fledged Public Debt Office for the jurisdiction of Rajasthan State. An additional Note Cancellation Section was opened at Bangalore on January 2, 1963, to cope with the increased flow of soiled notes. The Note Cancellation Section at Lucknow which was not an economically viable unit was closed on April 30, 1963 and the staff transferred to the Kanpur Office.

Employer-Employee Relations

149. The Award of the National Industrial Tribunal (Bank Disputes) which enquired into the dispute between the Bank and its employees regarding wages and other service conditions was published on September 29, 1962. The Award has classified the different centres where the Bank has its offices into two classes,

viz., (a) higher pay centres and (b) other than higher pay centres and has prescribed scales of pay for each category of workmen serving at either class of centres. A large part of the existing dearness allowance has been merged with the basic pay and the revised basic pay has been fixed with reference to the base year 1949. The new scheme for dearness allowance provides for an adjustment of the allowance from time to time for every increase or decrease of four points in the quarterly average of the All-India Consumer Price Index (Base: 1949 = 100). The retirement age of the subordinate staff has been raised from 55 years to 58 years. All employees of the Bank working in a supervisory capacity are excluded from the operations of the Award. The Award in respect of pay scales and allowances as well as pension and gratuity came into force with retrospective effect from January 1, 1962 and in regard to all other matters with effect from October 30, 1962. The Bank has since implemented the Award. The employees, however, decided to appeal against a number of directions in the Award and accordingly filed a writ petition before the Supreme Court of India, The petition which was admitted by the Supreme Court is pending hearing.

Bank's Premises

150. The construction of the office building at Lamington Road, Bombay, was completed and it is being occupied from July 1, 1963. The construction of office buildings at Calcutta and Kanpur was in progress and that in respect of the Patna office building will start shortly. The plans for the office building at Bangalore are being finalised. In accordance with the Bank's policy to establish an integrated and full-fledged office in each State, arrangements are being made for the acquisition of land for the construction of office premises at Gauhati, Bhubaneswar, Chandigarh, Jaipur, Ahmedabad, Bhopal, Hyderabad and Trivandrum. Further progress was also made in the Bank's programme for providing increased residential accommodation facilities for its staff. The construction work of a staff colony at Santa Cruz, Bombay, commenced in November 1962. The plans for a staff colony at Singhi Park, Calcutta have been finalised and the construction work is expected to start shortly.

Bank's Publications

151. Apart from this Annual Report of the Rank, which is presented to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, the Bank also brings out another statutory report in terms of Section 36(2) of the Banking Companies Act, namely, the Trend and Progress of Banking in India, which deals with developments in commercial banking during the calendar year and includes suggestions for the strengthening of the banking system in the country. The latest

Report on the Trend and Progress of Banking in India for the year 1962 was published early in May 1963. In addition, the Economic and Statistics Departments of the Bank issue jointly each year the Report on Currency and Finance which presents an objective and comprehensive survey of the trends and developments in the various sectors of the economy, together with a wealth of statistical data, the intention being to provide readers with a fund of information and a ready reference book on the economic and financial indicators in the country. The Report on Currency and Finance for the year 1962-63, the latest in the series, was released to the public in the second half of June 1963. The Economic and Statistics Departments also publish, every month, the Reserve Bank of India Bulletin whose contents include a review of financial and economic conditions, articles on current economic problems and notes on fresh developments as well as current economic and financial statistics. The Statistical Tables relating to Banks in India, compiled by the Economic Department mainly from the balance sheets of banks, which supplement the Report on the Trend and Progress of Banking in India, also provide useful details on individual commercial banks, showing their more important assets and liabilities, location of their branches and correspondents, etc. The Statistical Tables for 1962 are under preparation and will be published sometime in September 1963. The Agricultural Credit Department publishes once in two years a Review of the Co-operative 'Movement in India which contains a detailed account of the progress and problems of the co-operative movement in India. To supplement this Review, the Department issues another publication-the Statistical Statements relating to the Co-operative Movement in India which gives details of the financial operations of the different types of co-operative institutions. The latest Review and the Statistical Statements relating to the Co-operative Movement in India, covering the periods 1958-60 and 1960-61 were published in August 1962 and November 1962, respectively. Besides these periodical publications, several special publications are also brought out from time to time, such as (1) Reports of *ad hoc* expert committees constituted under the auspices of the Rank and (2) several monographs on the findings of the Rank's investigations into problems pertaining to rural credit, co-operation and balance of payments. The Report on the Fourth Rural Credit Follow-up Survey which was conducted jointly by the Economic and Statistics Departments in nine selected districts was published in December 1962. The Economic Department published in March 1963 a monograph on India's Balance of Payments, which explains the concept and methodology of the compilation of balance of payments in India and presents balance of payments statistics for the years 1948-49 to 1961-62 with suitable explanations of the various constituent items.

RESERVE BANK OF INDIA

Balance Sheet as at June 30, 1963

ISSUE DEPARTMENT

LIABILITIES				ASSETS		
	Rs. nP	Rs. nP.			Rs. nP	Rs. nP.
Notes held in the Banking Department	40,11,53,550 0(			Gold Coin and Bullion :-		
Notes in circulation . ..	2259,49,59,231 5(			(u) Held in India ...	117,76,10,478 8’	
				(b) Held outside India	... ..	
Total Notes issued ..		2299,61,12,781 5 0		Foreign Securities ...	99,83,42,732 6(	
				Total		217,59,53,211 4 7
				Rupee Coin		115,31,86,619 6 6
				Government of India Rupee Securities ...		1966,69,72,950 3 7
				Internal Bills of Exchange and other Commercial Paper.. .		...
Total Liabilities ..,		2299,61,12,781 5 0		Total Assets ...		2299,61,12,781 5 0

BANKING DEPARTMENT

LIABILITIES	Rs.	nP.	ASSETS	Rs.	nP.
Capital paid-up	5,00,00,000	00	Notes	40,11,53,550	00
Reserve Fund	80,00,00,000	00	Rupee Coin	1,53,342	00
National Agricultural Credit (Long-term			Small Coin	1,62,172	38
Operations) Fund	73,00,00,000	00	National Agricultural Credit (Long-term		
National Agricultural Credit (Stabilisation)			Operations) Fund		
Fund	8,00,00,000	00	(a) Loans and Advances to:-		
			(i) State Governments	27,16,74,215	66
Deposits:-			(ii) State Co-operative Banks ...	10,70,61,001	00
(a) Government			(iii) Central Land Mortgage Banks ...	...	
(i) Central Government	65,07,27,637	34	(*b*) Investment in Central Land Mortgage		
(ii) State Governments	14,49,11,904	91	Bank Debentures	2,84,88,375	00
(b) Banks			National Agricultural Credit (Stabilisation)		
(i) Scheduled Banks	93,53,87,650	25	Fund		
(ii) State Co-operative Banks ..	6,84,46,151	45	Loans and Advances to State Co-		
(iii) Other Banks	36,95,694	70	operative Banks..	...	
(*c*) Others	200,98,73,322	05	Bills Purchased and Discounted:-		
			(a) Internal	...	
Bills Payable	24,80,71,831	16	(*b*) External	...	
Other Liabilities	32,30,90,571	32	(c) Government Treasury Bills	54,01,21,512	56

BANKING DEPARTMENT—*Continued*

LIABILITIES	Rs.	nP.	ASSETS	Rs.	nP.
			Balances held Abroad*	6,75,45,048	84
			Loans and Advances to Governments? ...	30,94,00,000	00
			Loans and Advances to :—		
			(i) Scheduled Banks‡	1,17,22,000	00
			(ii) State Co-operative Banks§ . . .	128,64,50,859	00
			(iii) Others	1,13,80,000	00
			Investments ǁ...	265,30,83,596	41
			Others Assets	35,58,09,090	33
Total Liabilities	604,42,04,763	18	**Total Assets**	604,42,04,763	18

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

* Includes Cash and Short-term Securities.

† Excluding Loans and Advances from the National Agricultural Credit (Long-term Operations) Fund.

‡ Includes Rs. 9,00,000/- advanced to scheduled banks against usance bills under Section 17(4)(c) of the Reserve Bank of India Act.

§ Excluding Loans and Advances from the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund.

ǁ Includes £ 278,750/- held abroad.

P. C. BHATTACHARYYA, *Governor.*

M. V. RANGACHARI, *Deputy Governor.*

D. G. KARVE, *Deputy Governor.*

C. S. DIVEKAR, *Deputy Governor.*

N. D. NANGIA,
Chief Accountant.

Dated July 22, 1963.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED					
	June 30, 1963		June 30, 1962		June 30, 1961	
INCOME	Rs.	nP	Rs.	nP	Rs.	nP.
Interest, Discount, Exchange, Commission, etc.	56,05,13,899	90	53,97,62,586	37	52,07,05,659	66
EXPENDITURE						
Establishment	5,83,65,390	04	4,66,39,181	56	4,39,64,597	52
Directors' & Local Board Members' Fees & Expenses	50,169	16	50,264	04	80,415	28
Auditors' Fees	30,000	00	30,000	00	30,000	00
Rent, Taxes, Insurance, Lighting, etc.	27,25,869	39	27,82,335	45	26,07,806	11
Law Charges	7,728	94	1,46,220	81	79,450	75
Postage and Telegraph Charges"	5,64,495	64	4,48,868	18	3,64,096	82
Remittance of Treasure	36,73,705	50	38,40,914	12	33,29,148	77
Stationery, etc.	11,68,075	43	11,12,908	92	10,53,252	47
Security Printing (Cheque, Note Forms, etc.)	2,12,55,249	59	2,28,04,502	74	1,74,51,898	05
Depreciation and Repairs to Bank Property	43,85,013	93	51,19,591	89	53,54,407	67
Agency Charges	2,02,00,501	68	1,77,24,516	77	1,75,17,517	59
Contributions to Staff and Superannuation Funds	7,32,000	00	7,32,000	00	7,32,000	00
Miscellaneous Expenses	23,54,658	18	33,30,368	90	31,40,173	13
Net available balance	44,50,01,042	42	43,50,00,912	99	42,50,00,895	50
Total...	56,05,13,899	90	53,97,62,586	37	52,07,05,659	66

PROFIT AND LOSS ACCOUNT-Continued

	FOR THE YEAR ENDED					
	June 30, 1963		June 30, 1962		June 30, 1961	
	Rs.	nP.	Rs.	nP.	Rs.	nP.
Surplus payable to the Central Government	**44,50,01,042**	42	**43,50,00,912**	99	**42,50,00,895**	50
Balance Carried Forward	*Nil*		*Nil*		*Nil*	
Total... ...	**44,50,01,042**	42	**43,50,00,912**	99	**42,50,00,895**	*50*

RESERVE FUND ACCOUNT

	Rs.	nP.
By balance on June 30, 1963	**80,00,00,000**	*00*
By transfer from Profit and Loss Account	*Nil*	
Total... ...	**80,00,00,000**	*00*

P. C. BHATTACHARYYA, Governor.
M. V. RANGACHARI, ***Deputy Governor.***
D. G. KARVE, ***Deputy Governor.***
C. S. DIVEKAR, ***Deputy Governor.***

N. D. NANGIA,
Chief Accountant.

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, 1963.

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

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

Dated July 22, 1963.

Printed in India at
The Commercial Printing Press Limited, Bombay 1.
September 1963.