RESERVE BANK OF INDIA

Annual Report

for the year ended June 30,

1966

Reserve Bank of India

Report of the Central Board of Directors for the year ended June 30, 1966. Submitted to the Central Government in terms of Section 53 (2) of the Reserve Bank of India Act.

Annual Report 1966

CENTRAL BOARD OF DIRECTORS

Governor

SHRI P. C. BHATTACHARYYA

Deputy Governors

SHRI M. R. BHIDE
DR. B. K. MADAN
SHRI B. N. ADARKAR

Directors nominated under Section 8(l)(b) *of the RBI Act*

SHRI R. G. SARAIYA
SHRI B. N. MOOKERJEE
RAJA BAJRANG BAHADUR SINGH
SHRI V. S. TYAGARAJA MUDALIAR

Directors nominated under Section 8(l)(c) *of the RBI Act*

PROF. C. N. VAKIL
SHRI N. A. PALKHIVALA
SHRI P. L. TANDON
SHRI ARVIND N. MAFATLAL
SHRI G. BASU
DR. TRIGUNA SEN
SHRI C. P. N. SINGH
PROF. M. MUJEEB
SHRI K. SREENIVASAN
SHRI M. SUDARSANAM

Director nominated under Section **8(l)(d)** *of the RBI Act*

SHRI S. BHOOTHALINGAM, I.C.S., Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs

MEMBERS OF LOCAL BOARDS

Western Area

SHRI R. G. SARAIYA
SHRI LAXMAN VAMAN APTE
SHRI G. V. PURANIK
SHRI K. MAHINDRA
SHRI RAMKRISHNA BAJAJ

Northern Area

SHRI C. P. N. SINGH
SHRI CHARAT RAM
RAJA BAJRANG BAHADUR SINGH
SARDAR AMAR SINGH
SHRI BISHAMBER DAS

Eastern Area

SHRI B. N. MOOKERJEE
SHRI P. K. ROY
SHRI K. K. BIRLA
DR. TRIGUNA SEN
MR. J. V. JARDINE PATERSON

Southern Area

SHRI V. S. TYAGARAJA MUDALIAR
SHRI V. EMBERUMANAR CHETTY
SHRI M. SUDARSANAM
SHRI K. GOPALAKRISHNA
SHRI C. RAMAKRISHNA

OFFICES/BRANCHES OF THE ISSUE AND BANKING DEPARTMENTS

ISSUE DEPARTMENT

BANGALORE

BOMBAY

BYCULLA (BOMBAY)

CALCUTTA

KANPUR

MADRAS

NAGPUR

NEW DELHI

BANKING DEPARTMENT

BANGALORE

BOMBAY

BYCULLA (BOMBAY)

CALCUTTA

KANPUR

MADRAS

NAGPUR

NEW DELHI

LETTER OF TRANSMITTAL

Reserve Bank of India,
Central Office,
Bombay.

August 19, 1966.
Sravana 28, 1888 (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 1966 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 1966.

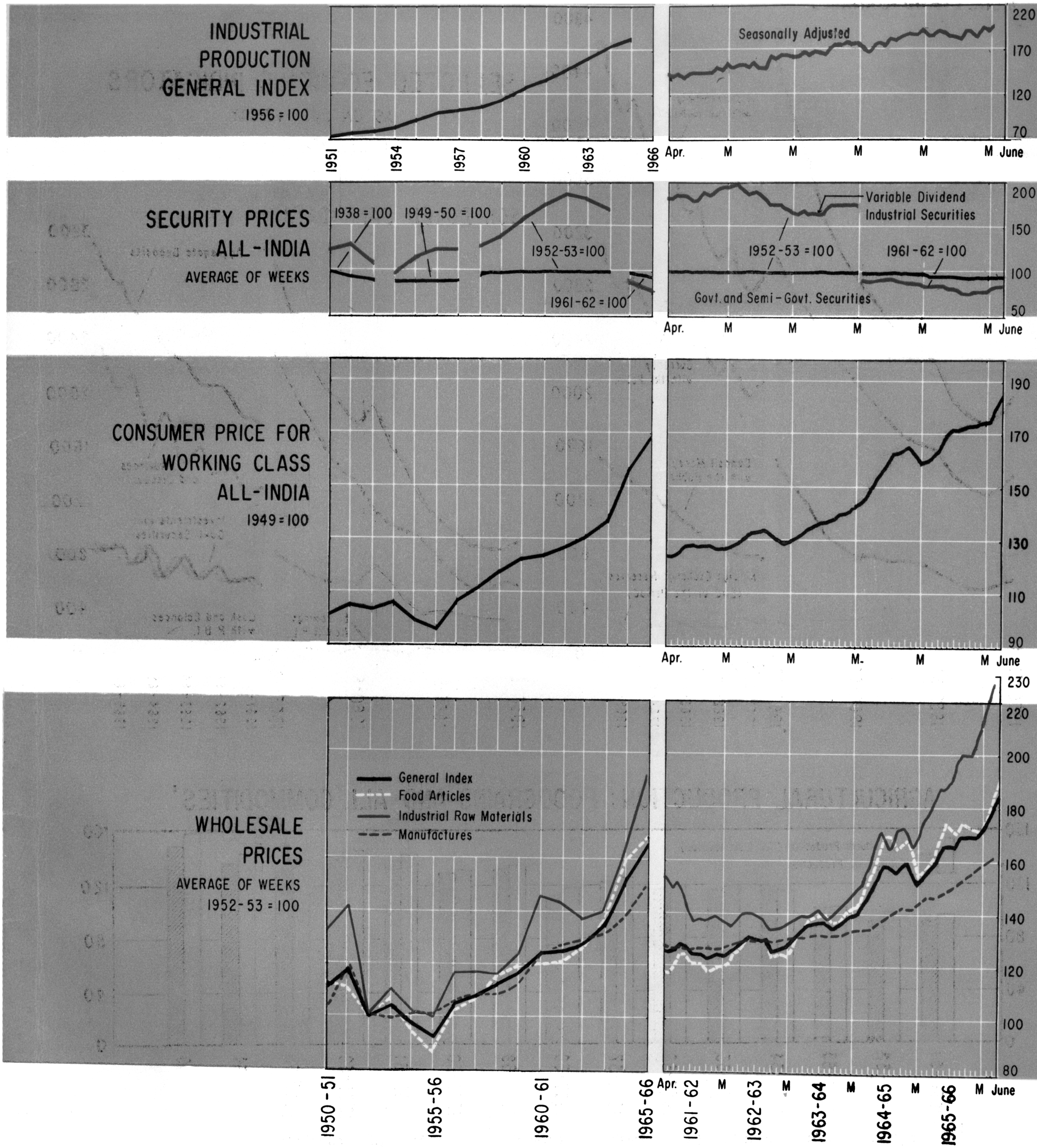
Yours faithfully,

P. C. BHATTACHARYYA

Governor.

SELECTED ECONOMIC INDICATORS

INDEX NUMBERS

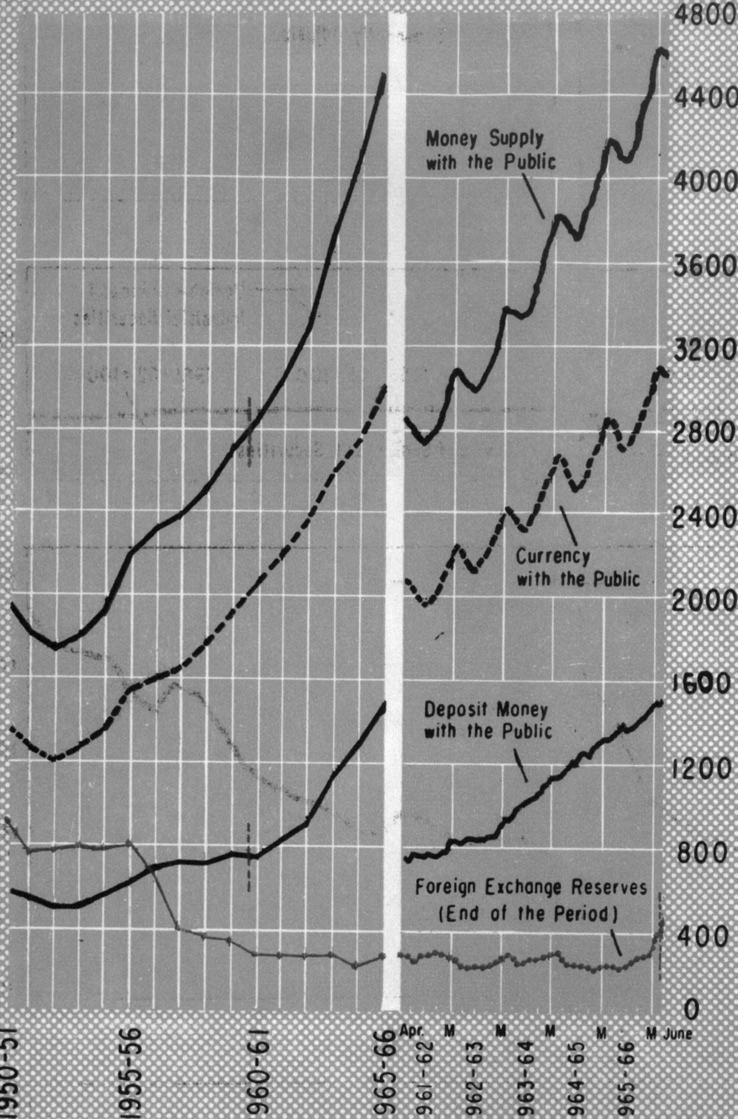


SELECTED ECONOMIC INDICATORS

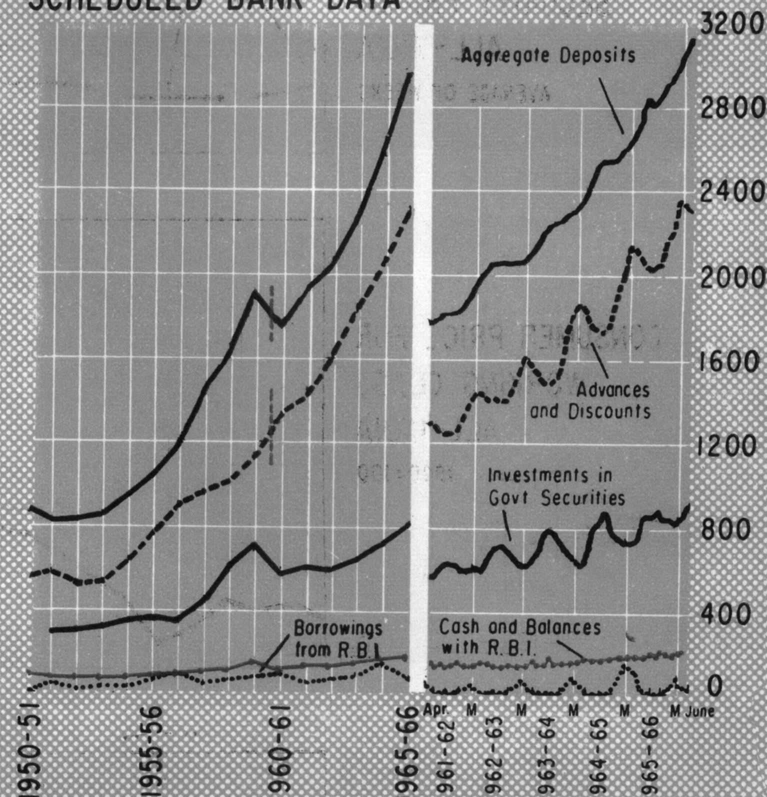
AS ON LAST FRIDAY

(Crores of Rupees)

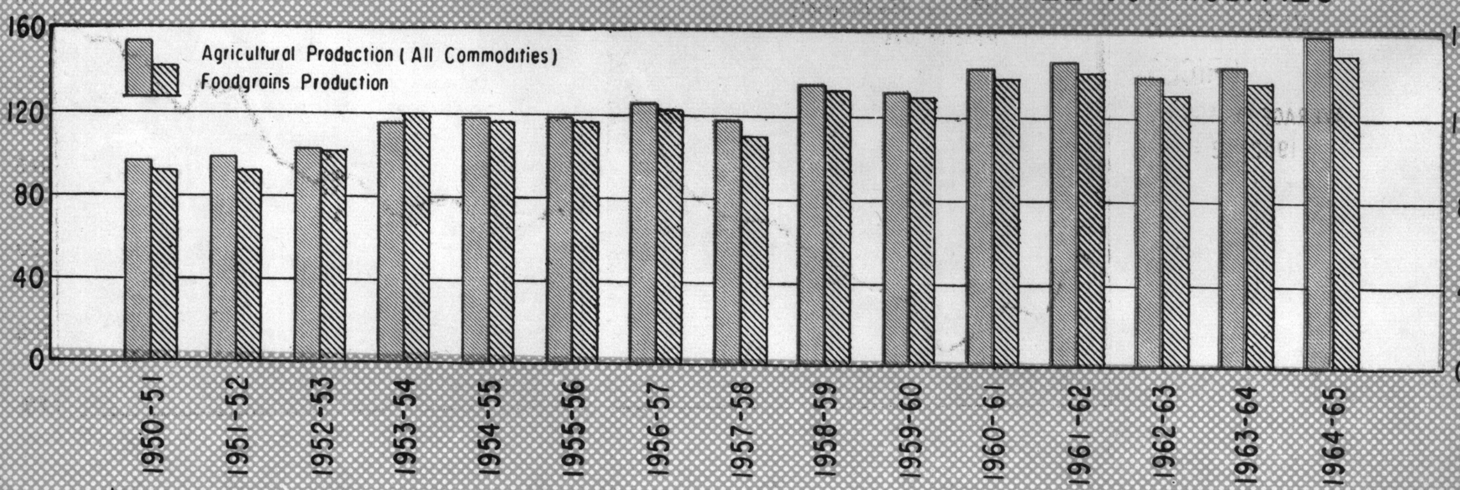
MONEY AND BANKING



SCHEDULED BANK DATA



AGRICULTURAL PRODUCTION: FOODGRAINS AND ALL COMMODITIES*



*Based on the Index Numbers of Agricultural (all commodities) and Foodgrains Production, base: agricultural year 1949-50 = 100

REPORT OF THE CENTRAL BOARD OF DIRECTORS OF THE RESERVE BANK OF INDIA

For the year July 1, 1965 — June 30, 1966

I. DEVELOPMENTS IN THE ECONOMY

The twelve months, July 1965 to June 1966, were a period of very great anxiety and strain for the Indian economy leading finally to the devaluation of the rupee. Already the economy was suffering from inflationary pressures as a result of high levels of expenditure by the Government for defence and development financed increasingly by recourse to the banking system. Two unrelated developments, namely, the armed conflict with Pakistan and an unprecedented failure of the monsoon intensified these pressures. The conflict with Pakistan led to interruption in foreign aid and thereby added to the existing difficulties in the balance of payments. The failure of the monsoon resulted in a severe set-back to agricultural production. There was a noticeable slowing down in the rate of growth of industrial production too. Partly this was the result of a fall in demand for cotton textiles and partly of shortages of electrical power and of imported raw materials . and components.

2. In sharp contrast to the deterioration on the supply side, monetary demand expanded rapidly as budgetary expectations of a small surplus in the Union Budget and reduced outlays in the State Budgets envisaged for 1965-66 did not materialise, despite efforts by the Centre to raise additional resources through a supplementary budget. Government had to increase further its reliance on the banking system to finance the deficit. Under the impact of larger disbursements by Government, money supply with the public, particularly currency, rose substantially during the year. In the result, the imbalance between aggregate supply and aggregate demand which had existed over most of the Third Plan period considerably worsened. Reflecting this the index of wholesale prices showed a much larger rise than in the preceding year-18.2 per cent as against 7.2 per cent. Nearly four-fifths of the rise in prices was on account of food articles and industrial raw materials.

3. In the external sector of the economy, payments difficulties became more acute. Not only did exports cease to grow despite a widening of schemes of export assistance invarious forms but even the existing level of exports could not be maintained as exports became increasingly uncompetitive due to price inflation. Payments for imports, on the other hand, which were at high levels showed only a small decline despite severe import restrictions, largely as a result of additional demands on account of the set-back in agriculture giving rise to payments on account of food imports and freight thereon. The suspension of foreign assistance, following the conflict with Pakistan, by some major aid-giving countries worsened the difficulties and necessitated a further recourse to the International Monetary Fund to relieve the pressures on the foreign exchange reserves.

4. To meet the problems posed by mounting inflatianary pressures a number of measures were taken. Credit control, both overall and selective, was further tightened. Government intensified its efforts to raise further resources. Statutory rationing of foodgrains was extended. Import duties were raised and the area of selective measures of export promotion widened. For the first time an incentive was offered under the National Defence Remittance Scheme for certain categories of inward remittances. It became increasingly obvious, however, that the existing parity of the rupee had become more and more unrealistic and impeded efforts to improve the balance of payments and that selective measures were of limited use in meeting this problem. The par value was, therefore, altered by devaluing the rupee on the 6th June by 36.5 per cent. This action was accompanied by abolition of

schemes of export incentives and subsidies, adjustments in import/export duties and some liberalisation of imports.

Trends in Production and Prices

5. Agricultural production declined substantially in 1965-66 due to inadequate rainfall, particularly in western, central and eastern regions of the country. Foodgrains output is estimated to show a fall of 18.8 per cent from 89 million tonnes in 1964-65 to 72.3 million tonnes in 1965-66. The shortfall seems to be particularly serious in the case of rice, the output of which is nearly 8.4 million tonnes less than the previous year's level of 39 .O million tonnes. Among commercial crops, production of groundnuts is expected to be about 32 per cent less, that of raw jute and mesta about 25 per cent less, and of cotton 1.8 per cent less than in the previous year. The output of sugarcane remains unchanged.

6. The rate of growth of industrial production during the financial year 1965-66 slowed down to 4.0 per cent as compared to 7.0 per cent in 1964-65. The principal factor responsible for this was the decline of 3.5 per cent in the output of cotton textiles, which has a weightage of 32.1 per cent in the general index, due to accumulation in the earlier part of the year of unsold stocks with mills resulting from lower offtake, and due to shortage of power supply in certain regions. Excluding cotton textiles, the index of industrial production would show an increase by 6.2 per cent in 1965-66 (compared to 7.2 per cent in 1964-65). Other industries which showed a decline in output were railway wagons, fertilisers and woollen textiles. Reduced availability, particularly in the latter half of the year, of imported components and raw material affected the rate of utilization of capacity in such industries as fertilisers, automobiles, woollen textiles. The rate of increase in the output of jute manufactures had also slackened in the last quarter of the year owing mainly to shortage of raw jute supplies, following the decline in raw jute output for the second year in succession. The performance of certain basic and intermediate goods industries was, on the other hand, encouraging. Output of iron and steel, alurninium and cement showed significant increases due to commissioning of new capacity and intensive utilisation of existing capacity. Following the increase in output of the coal-consuming industries, production of coal rose significantly. Output of sugar during the 1965-66 season is estimated at 3.5 million tonnes compared to 3.3 million tonnes in 1964-65. For the Third Plan period as a whole, the average annual increase in industrial output works out to 6.8 per cent as compared to the target of 11 per cent.

7. The general price level rose substantially during the year July 1965—June 1966 mainly on account of the rise in the price of food articles and industrial raw materials. The wholesale price index (base : 1952-53=100) moved up from 158.3 at the end of June 1965 to 167.3 by the middle of August. Thereafter the index number fluctuated for several months between 165 and 171. From March 1966, however, it began a strident rise and stood at 187.1 at the end of June 1966, recording a rise of 18.2 per cent over the year compared to 7.2 per cent in the preceding year. The usual post-harvest price decline was conspicuous by its absence. Reflecting the deterioration in the general price level, particularly of food articles, the All-India consumer price index for working class (base : 1949 = 100) rose by 13.5 per cent to 185 between July 1965 — June 1966. In. the preceding year, this index had recorded an increase of 8.7 per cent.

8. Almost all the constituent groups of the wholesale price index contributed to the rise in prices. The rise was very marked in industrial raw materials-28.8 per cent compared to 15.0 per cent in. the previous year. Amongst individual items in this group, raw jute showed an increase of as much as 44.9 per cent. This was closely followed by oilseeds with an increase of 36.3 per cent. The index number for food articles showed an increase of 19.4 per cent as compared to 4.0 per cent in the previous year. Prices of edible oils showed an increase of 49.7 per cent and of rice 30.5 per cent. These two groups together thus explained nearly four-fifths of the rise in the general index. The prices of manufactures also rose steeply during the year (11.7 per cent compared to 8.6 per cent in the preceding year). The

annual average weekly index of wholesale prices for 1965-66 at 171.3 recorded a rise of 36.2 per cent as compared with the level five years earlier.

Price Policy

9. This sharp all-round increase in prices emphasised the urgency of remedial action to relieve the distress of consumers in the low income groups on the one hand and to stimulate production on the other. In order to augment the availabilities of foodgrains in the immediate future, imports were increased from 6.3 million tonnes in 1964 to 7.5 million tonnes in 1965. During the first six months of 1966 imports of foodgrains amounted to 5.31 million tonnes as compared to 3.78 million tonnes in the first six months of 1965. Simultaneously, internal procurement was intensified. Statutory rationing was introduced in important towns and industrial areas around them. To protect the consumers from excessive rise in prices of foodgrains, many States have fixed maximum wholesale and retail prices for rice and wholesale prices for paddy. The policy of guaranteed minimum support prices for certain major cereals (viz. paddy, jowar, bajra and maize) has been continued for the 1966-67 season in order to stimulate production. An important decision bearing on the price policy was the appointment of a committee to examine the present arrangements regarding movement, procurement and distribution of foodgrains in the country and to suggest modifications if deemed desirable.

10. In regard to industrial commodities the steps taken during the year to stimulate larger output in various ways-include provision of incentives through higher prices, grant of fiscal concessions, withdrawal of price, sale and distribution controls and exemption of industries from the licensing provisions of the Industries Act. The ex-factory prices of sugar and prices of controlled varieties of mill made cloth were increased during the year. The budget for 1966-67 extended the industrial development allowance to the tea industry and at the same time expanded the list of priority industries eligible for higher development rebate to include tea, newsprint and printing machinery. The price control on pig iron and certain categories of imported steel was withdrawn, while the cement industry was freed from price and distribution controls. Government exempted in May 1966, 11 industries from licensing provisions. The Scarce Industrial Materials Control Order promulgated in September 1965 during the conflict with Pakistan, was repealed in June 1966.

Resources Position : Public Sector

11. The budgetary position of the Government, Central and State, showed considerable deterioration during the year. The distress caused in several areas by the failure of the monsoon and the resultant shortfall in agricultural output strained the budgetary position and necessitated further efforts at mobilisation of additional resources.

12. Reflecting the Government's anxiety to minimise the inflationary impact of expenditure, the Central Budget for 1965-66 envisaged a small surplus of Rs. 3 crores after providing for some concessions in regard to both direct and indirect taxes. The States, on the other hand, budgetted for deficits amounting to Rs. 79 crores even after providing for reduced outlays. However, according to the revised estimates for 1965-66 (April-March), the budgetary position of the Centre shows a deterioration from an overall surplus of Rs. 3 crores to a substantial deficit of Rs. 115 crores and if the funding of *ad* hoc Treasury Bills of Rs. 50 crores is taken into account, the overall deficit would amount to Rs. 165 crores (Revised Estimates). This deterioration has taken place despite the efforts made to raise additional revenue to the extent of Rs. 111 crores in the Supplementary Budget of August 1965. This has happened due largely to increases in outlays, the pause in foreign aid, the failure of monsoons and larger assistance to States. The overall budgetary position of the States has also deteriorated as is reflected in the widening of the deficit from Rs. 79 crores in the budget estimates to Rs. 189 crores in the revised estimates for 1965-66. Thus, the budgetary operations of the Government, Central and State, still continue to be a major inflationary factor in the economy.

13. Additional taxation at the Centre was estimated to yield about Rs. 2,276 crores for the entire period of the Third Plan, thus exceeding the plan target of Rs. 1,100 crores. As for States, the yield from additional taxation during the five years of the Third Plan reached the target of Rs. 610 crores. As at the end of 1965-66, which is the last year of the Third Plan, the ratio of Central and State tax revenue to national income is expected to be 14 per cent compared to 9.6 per cent at the end of the Second Plan.

14. For the fiscal year 1966-67, which is the first year of the Fourth Plan period, the budget of the Central Government shows an overall deficit of Rs. 32.25 crores taking into account the concessions which were made after the announcement of the budget. The State Budgets are estimated to show an overall deficit of Rs. 35 crores. There has thus been a considerable pruning down of the overall deficit. The Centre, in particular, has stepped up taxation which is expected to yield an additional Rs. 106 crores made up of Rs. 54.61 crores under direct taxes and Rs. 51.36 crores under indirect taxes over the yield at the 1965-66 rates of taxation. The State Budgets for 1966-67, also provide for fresh taxation, amounting to Rs. 15 crores.

15. The tax proposals for 1966-67, have been designed to correct the adverse trends prevailing in the economy. In the context of continuing pressure on prices, the budget seeks to promote greater output in all the key sectors of the economy and encourage savings by improving the psychological climate. Simultaneously, the budget has re-emphasised the need to restrain public expenditure, particularly on general administration and on new development projects which may begin to yield output only after considerable period. The proposals in regard to direct taxes have been formulated to provide a measure of relief to persons in low-income groups and to offer some incentives to the corporate sector in order to promote savings and capital formation. Thus in regard to taxation of personal incomes, the exemption limits as also the personal allowances have been raised. The removal of the capital gains tax on notional gains arising from bonus issues and the softening of the rigours of the dividend tax are calculated to revive the capital market and to increase the flow of private savings to industry in the form of equity participation. As regards indirect taxes, the changes proposed in the budget aim at restraining consumption and increasing exportable surpluses to the extent that this can be done without causing much hardship to consumers.

16. With the substantial rise in aggregate expenditure, plan and non-plan, the need for mobilisation of additional resources became imperative during the year. The Centre borrowed from the domestic capital market in two instalments. The first in June, representing the normal borrowing" by the Centre, comprised two loans, viz. a six-year $4\frac{1}{2}$ per cent Loan, 1971 and a twenty-five-year $5\frac{1}{2}$ per cent Loan, 1990 for a total sum of Rs. 251 crores (gross). The second instalment of borrowing in October 1965, was in the nature of an emergency loan, comprising two Defence Loans, viz. a three-year $4\frac{1}{2}$ per cent National Defence Loan, 1968 and a seven-year $4\frac{3}{4}$ per cent National Defence Loan, 1972. Subscriptions to these two Defence Loans amounted to Rs. 27.6 crores. The State Governments floated loans in August 1965, actual subscriptions to which amounted to Rs. 106.74 crores slightly exceeding the notified sum (Rs. 101 crores). The net market borrowings by the Centre and the States at Rs. 219 crores were somewhat larger than in 1964-65 (Rs. 190 crores). With the larger borrowings by the Government, the gilt-edged market remained easy during the greater part of the year.. In fact, the State loans floated in August 1965, went to a sizeable discount soon after their floatation. Apart from the process of realignment of the existing yields to higher levels, the market was affected by the tight money conditions that prevailed almost throughout the year. Moreover, investment in Government securities by the seheduled banks in the slack season of 1965 rose by Rs. 139 crores only compared to Rs. 258 crores and Rs. 146 crores, respectively, in the slack seasons of 1964 and 1963, thus reflecting the strained liquidity position of the banks. Consequently, Reserve Bank's open market operations resulted in smaller net sales of Rs. 42 crores (excluding purchases from the State Bank of India on account of P. L. 480 funds) than in 1964-65 (Rs. 61 crores) and 1963-64 (Rs. 74 crores).

17. There was a marked rise in small savings during the year mainly on account of post office savings banks deposits which include registration deposits for purchase of cars/scooters, required to be made at Post Office Savings Banks since July 1965. Net collections of small savings during the financial year 1965-66 at Rs. 146.5 crores (provisional) were larger by Rs. 16.2 crores than in 1964-65. Besides the inclusion of registration deposits, other factors such as raising of interest rates and introduction of new series have also contributed to the rise in small savings. Voluntary contributions to the National Defence Fund set up in 1962, amounted to Rs. 17.44 crores in cash, 0.5 lakh grammes in gold and 1.5 lakh grammes in silver during the year ended March 31, 1966.

18. With a view to mobilising foreign exchange resources for national defence, National Defence Gold Bonds, 1980 were offered for subscription in gold, gold coin and gold 'ornaments and the National Defence Remittance Scheme was announced. The new gold bonds are redeemable in gold on maturity and carry tax concessions and other inducements. As on May 31, 1966, total subscriptions to the Gold bonds amounted to 13,558 kgs. Under the National Defence Remittance Scheme, Indian nationals receiving remittances from abroad by way of gifts, family maintenance or capital without repatriation facilities between October 26, 1965 and May 31, 1966, were eligible for the grant of import licences upto 60 per cent of the rupee equivalent of remittances, in their own name or in the name of parties designated by them. Persons resident abroad also were given facilities to benefit from the scheme through the opening of special accounts with the authorised dealers. By May 31, 1966 remittances received under the Scheme from abroad amounted to about Rs. 70 crores'.

The Private Sector

19. Over most of the period under review the capital market worked at a low ebb. The falling trend in stock and share prices continued till December 1965 and there was considerably less activity in the new issues market. It is significant that even at a reduced level of new issue lloatation the flow of fresh funds into the market was inadequate to meet the demand. The private sector, therefore, experienced considerable difficulties in obtaining funds and new issues had to rely even more heavily on underwriting by financial institutions: These institutions in turn relied to a greater extent on the Government for obtaining the necessary funds. The cumulative rise in prices in recent years has resulted in a steady erosion of the real value of money incomes and savings. It has also affected to some extent the household sector's capacity to save. Unless the inflationary trend is arrested it will be extremely difficult to find genuine savings for plan schemes both in the public and private sectors. Reflecting these trends in the capital and stock markets, the Reserve Bank's index of variable dividend securities (base : 1961-62 = 100) declined from 80.9 at the end of June 1965 to 71.5 by mid-December before recovering to the earlier level (80.9) by end-June 1966. The pace of recovery improved after the announcement of fiscal reliefs and concessions in the 1966-67 budget. Over the year the index thus showed no net change whereas it had declined by 4.3 per cent in the year ended June 1965.

20. The activity in the new issue market was at a much lower level than in the previous year with capital issues (particularly equity issues) through prospectus and rights recording a decline during the year. The amount of foreign participation in respect of the prospectus issues had also declined. Consents for capital issues of shares (other than bonus) and debentures, which indicate investment intentions of entrepreneurs, were substantially lower at Rs. 86 crores in 1965-66 compared to Rs. 104 crores in 1964-65. Consents for bonus issues amounted to Rs. 35.9 crores almost the whole of which followed the tax relief provided in the 1966-67 budget to both companies as well as individual investors in respect of bonus issues. The spate of bonus issues has continued, the consents for bonus issues rising to Rs. 48.3 crores during April-mid July. Security-wise, there was a decline in the consents for equities from Rs. 68 crores in 1964-65 to Rs. 57 crores in 1965-66 and for debentures from Rs. 28 crores in 1964-65 to Rs. 17 crores in 1965-

66. Those for preference shares, however, rose by Rs. 4 crores to Rs. 11 crores in the year.

21. During the year, the Government made further efforts to revive the capital market, by offering incentives, fiscal and other. The development rebate in respect of new plant and machinery installed after March 31, 1965, by the industries specified in the Fifth Schedule to the Income-tax Act, was increased from 25 per cent, as provided in the 1965-66 budget, to 35 per cent in the Supplementary Budget of August 1965. The 1966-67 budget has provided a few more concessions. The company surtax has been reduced from 40 per cent to 35 per cent. The companies have also been exempted from the 7.5 per cent tax on the amount distributed as dividend so long as this amount does not exceed 10 per cent of paid-up equity capital. Moreover, the 12.5 per cent bonus issues tax on companies and the notional capital gains tax in respect of bonus shares in the hands of individual investors have been abolished. Special tax concessions available to specified industries have been extended to three more industries, viz. tea plantations, newsprint and printing machinery by including them in the list of priority industries. A number of industries which do not depend on imports of raw materials and components and thereby do not draw on the foreign exchange resources have also been exempted from the licensing provisions of the Industries (Development and Regulation) Act, 1951. Besides, the resources of the All-India term lending financial institutions were further augmented through grants of loans by the Government.

22. The assistance provided by financial institutions* by way of loans, underwriting and direct subscriptions, which reflects the gap in market resources available to the private sector, amounted to Rs. 163 crores during the year (April-March) compared to Rs. 92 crores in 1964-65. Disbursements by these institutions during the same period also stood appreciably higher at Rs. 99 crores as against Rs. 70 crores in 1964-65. With the strengthening of the institutional machinery and gathering of greater experience in the appraisal of industrial projects, the IDBI stepped up considerably the volume of its operations. Total assistance sanctioned by the IDBI-including refinance facilities to eligible financial institutions as well as guarantees for loans and deferred payments—increased from Rs. 54 crores in 1964-65 to Rs. 85 crores in 1965-66. There was an impressive rise in disbursements from Rs. 24 crores to Rs. 51 crores. In addition to its assistance to industrial concerns by way of direct loans, underwriting, guarantees and rediscounting of bills as well as refinance assistance, the IDBI introduced on April 1, 1966, a scheme of participation in industrial loans and guarantees. The scheme involves sharing of risks (with those financial institutions which are eligible for refinance facilities) to the extent of IDBI's participation. The Life Insurance Corporation of India also continued to assist the private sector through its investments in industrial securities; its investments in shares and debentures of joint stock companies rose from Rs. 144 crores in March 1964 to Rs. 159 crores in March 1965. Larger assistance to small scale industries was provided through the Government of India's Credit Guarantee Scheme administered by the Reserve Bank as well as the scheme of assistance under the auspices of the State Bank.

Trends in Money and Credit

23. The growing pressure of demand in relation to the inadequate growth of output was an important factor in the worsening of the price situation. Money supply, representing monetary demand in the economy, rose substantially by Rs. 429 crores (or by 10.3 per cent) during the accounting year 1965-66 as against Rs. 359 crores (or 9.4 per cent) in the previous year. The increase was much larger in the currency component of money supply than in deposits, the former having gone up by Rs. 230 crores (compared to Rs. 187 crores in 1964-65), and the latter by Rs. 199 crores as against Rs. 172 crores in 1964-65. Total monetary resources (comprising money supply and time deposits), which provide a truer measure of aggregate monetary demand, expanded by Rs. 658 crores (or by 11.6 per cent) in 1965-66 com-

* Comprising the I.D.B.I., the I.F.C, the I.C.I.C.I, the S.F.Cs and the S.I.D.Cs.

pared to Rs. 509 crores (or 9.8 per cent) in 1964-65. At a time when aggregate supply was 'adversely affected such growth in monetary resources only served to aggravate the existing imbalance between aggregate demand and aggregate supply.

24. The monetary expansion during the year stemmed mainly from the large magnitude of bank credit extended to the Government. Bank credit to the Government comprising investments in Government securities by the Reserve Bank and other banks (excluding investments of P.L. 480 and P.L. 665 funds) and ways and means advances adjusted for Governments' cash balances with the Bank, rose by Rs. 596 crores which is nearly twice the increase (of Rs. 303 crores) recorded in 1964-65. 'Credit extended by the Reserve Bank to the Government showed a much larger rise of Rs. 389 crores (compared to Rs. 169 crores last year) than the increase in commercial bank credit to Government (Rs. 207 crores in 1965-66 compared to Rs. 134 crores in 1964-65). In contrast, bank credit to private sector was, unlike in the previous year, contractionary in its impact on money supply. There was a small decline of Rs. 18 crores in net bank credit to private sector, which was the net result of a smaller increase in bank credit (Rs. 231 crores in 1965-66 compared to Rs. 293 crores in the previous year) and a larger growth in time deposits* of Rs. 249 crores as against Rs. 212 crores last year. The impact on money supply of balance of payments position (as measured by changes in net foreign exchange assets of the Reserve Bank) was expansionary to the extent of Rs. 60 crores. In 1964-65, on the other hand, balance of payments position exerted a contractionary influence on money supply to the extent of Rs. 31 crores. Money supply with the public showed a larger contraction (Rs. 43 crores) in the 1965 slack season than in the slack season of 1964 (Rs. 33 crores). The expansion in money supply during the 1965-66 busy season was Rs. 480 crores as compared to Rs. 389 crores in the 1964-65 busy season.

25. The credit situation over the year was characterised by a markedly slower pace of credit expansion by the banking system, accompanied by a slightly faster rate of deposit growth. The pressure on banks' liquidity was consequently lighter, with the credit-deposit ratio moving down by 3.7 percentage points to 72.7 per cent. Credit expansion amounting to Rs. 202 crores (or 9.8 per cent) during the year was much smaller than in the preceding year (Rs. 295 crores or 16.6 per cent). Scheduled banks' deposits increased by Rs. 415 crores (or 15.3 per cent) compared to Rs. 323 crores (or 13.5 per cent) in 1964-65.

26. In the 1964-65 busy season there had occurred a record credit expansion of Rs. 407 crores and by the end of June 1965, the level of credit had contracted by Rs. 45 crores only. Consequently, the credit-deposit ratio at 76.4 was 2 percentage points higher than at the end of June 1964. Notwithstanding the bumper foodgrains output in 1964-65, the price situation was under severe pressure during the 1965 slack season. As the pace of credit contraction in the season was not adequate, the Bank took further restrictive action so as to accelerate the pace of contraction and to assist in holding the prices of essential commodities in the lean period. Selective credit controls in respect of advances against foodgrains, vegetable oils and oilseeds were tightened, while unsecured advances were frozen at the overall level reached on June 25, 1965. Ceilings were placed on advances against vegetable oils and margin requirements in respect of advances against cotton and kapas were imposed for the first time,

27. In the wake of the Pakistani aggression in September 1965, a selective relaxation of credit control measures was called for, so that the defence effort would not be hampered. The restrictions on unsecured advances were withdrawn, while selective credit controls were liberalised somewhat. Banks with branches in border areas were specially instructed to render all possible assistance to industry and trade to enable them to maintain production and supply. To take into account the special difficulties faced by the textile industry following the dislocation of trade as a result of the Indo-Pakistani conflict, the Bank introduced a scheme of special accom-

*** Adjusted for P.L. 480 and P.L. 665 deposits.**

modation to banks under the Bill Market 'Scheme for facilitating financial assistance to cotton textile mills which had accumulated large stocks of finished goods. Banks were also called upon to finance the increasing sugar stocks with mills owing to the record output in the 1964-65 season and to support the food procurement operations undertaken by Governments and their agencies in order to conserve the available supplies during the lean period. In the result, credit contraction in the 1965 slack season was relatively small, amounting to Rs. 93 crores which formed only 23 per cent of the busy season expansion, as against Rs. 139 crores or 37 per cent in the 1964 slack season. On the other hand, the growth in deposits of scheduled banks, at Rs. 178 crores was Rs. 33 crores or 16 per cent smaller than the growth in the 1964 slack season. The addition to their Government securities portfolio of Rs. 139 crores was only about one-half of that in the 1964 slack season. Consequently, the investment-deposit ratio at 30.5 per cent at the end of October 1965, was 4 percentage points lower than a year ago. Partly on account of the inadequate contraction of credit and partly on account of the fixation of tap rate on Treasury Bills at 3.5 per cent, the call money market ruled unusually firm during the greater part of the slack season.

28. The credit policy for the 1965-66 busy season was framed against the background of a relatively small contraction of credit in 1965 slack season, the unfavourable crop outlook for 1965-66 and the possibility of slackening of industrial growth. These developments had an adverse impact on the price situation which was already worsening rapidly. While keeping the overall framework of credit policy initiated in September 1964, the Bank, therefore, modified it for the purpose of ensuring adequate supply of credit to priority sectors, viz., food procurement and storage, defence supplies, and exports, and controlling credit for other purposes with greater vigour than in the previous busy season. Refinance in respect of defence supplies, packing credit for exporters and advances for food procurement and allied activities of Governmental agencies was provided at the Bank rate. Refinance from the Bank in respect of rupee export bills at the Bank rate was also continued. Accommodation for less essential purposes was made dearer by increasing the rate charged, by 1 per cent as against $\frac{1}{2}$ per cent hitherto, for every decline of one point or a fraction thereof below 30 per cent in the net liquidity ratio of borrowing banks (the ratio being calculated as before, after taking into account all borrowings from the Reserve Bank and the Industrial Development Bank of India). As an additional measure of credit regulation, the Reserve Bank directed the banks to obtain its prior authorisation before sanctioning any fresh credit limit on a secured or on an unsecured basis, of Rs. 1 crore or more to any single party or any limit that would take the total limit enjoyed by such party from the entire banking system to Rs. I crore or more. As the season progressed, it became apparent that the weight of food procurement advances was telling on the banking system's ability to provide for normal seasonal financing. In view of the level of bank credit extended to finance food procurement and allied operations of State Governmental agencies and the prospective increase in such credit, in respect of advances made to State Governments/their agencies/Food Corporation of India for food procurement/storage/distribution, any amount in excess of the maximum level of such advances attained by a bank in the year 1965, was excluded with effect from March 26, 1966, from the total borrowings of the bank for the purpose of calculating that bank's net liquidity ratio.

29. To enable banks to meet the genuine credit requirements relating to movement and distribution of essential commodities, appropriate modifications were made in selective credit controls. Restrictions on advances in respect of credit against stocks of foodgrains were relaxed on November 12, 1965, in the six border districts of the Punjab where trade and industry were dislocated by the Indo-Pakistan conflict. On January 3, 1966, advances against stocks of indigenous cottonseed oil were exempted from the purview of ceiling restrictions. On January 31, advances granted by offices and branches of scheduled banks operating in Kerala, against stocks of paddy and rice, and wheat to the wholesale dealers and fair price shop dealers (authorised by the Government of Kerala) were exempted from the ceiling control. The minimum margin requirement in respect of these was

also reduced from 50 per cent to 25 per cent. Advances granted to vanaspati manufacturers against stocks of sunflower oil imported as a gift from the Soviet Union were exempted on April 20, from margin and ceiling restrictions.

30. In the context of the decline in agricultural output and the slackening of industrial growth and the costlier Reserve Bank accommodation to scheduled banks for non-priority purposes, the pressure on the banking system during the 1965-66 busy season was noticeably less than in 1964-65 season. Credit expansion amounted to Rs. 309 crores which was Rs. 98 crores less than in 1964-65 busy season. While advances against both seasonal and non-seasonal commodities rose less than in the 1964-65 busy season, the rise in unsecured advances was about twice as' much as in the previous busy season. In view of the higher level of deficit financing and the operation of the National Defence Remittance Scheme, deposits increased sharply by Rs. 214 crores as' compared to Rs. 178 crores in the 1965 slack season and Rs. 106 crores during the 1964-65 busy season. The credit-&posit ratio stood at 76.9 on April 29, 1966 as compared to 80.1 a year ago. Banks' borrowings from the Reserve Bank increased by only Rs. 28 crores in the 1965-66 busy season as compared to Rs. 125 crores last season. The peak level of borrowings in the 1965-66 busy season was also much lower, being Rs. 107 crores on March 11, 1966, compared to Rs. 163 crores on April 2, 1965. The highest weighted average rate paid on these borrowings in 1965-66 was 7.5 per cent as against 8.4 per cent in the earlier year. At the same time, banks' liquidation of investments amounted to only Rs. 27 crores as compared to Rs. 154 crores in the 1964-65 busy season. Consequently, the investment-deposit ratio declined by only 3 percentage points in the 1965-66 busy season to 27.4, as against 7 points in the 1964-65 busy season. Scheduled banks' cash ratio declined somewhat during the 1965-66 busy season, but at 6.2 per cent at the end of the season, it was a little higher over the year. In keeping with the credit-deposit relationship, the call money market ruled generally easy during the 1965-66 busy season. The highest rates reached were 7.3 per cent in Bombay and 9.9 per cent in Calcutta, as compared to 8.5 per cent at both centres in the 1964-65 season. At the end of the 1965-66 season, the rates were 4.0 per cent at Bombay and 4.77 per cent at Calcutta, as against 7.28 per cent and 7.04 per cent respectively, a year ago.

31. As the failure of monsoon in 1965 had led to a sharp decline in agricultural output, particularly foodgrains, the pressure on prices of foodgrains, edible oils, etc. in the 1966 slack season is found to be greater than in the corresponding 1965 season. The lower agricultural outturn has also reduced the availability of raw materials for industry which is already facing a shortage of imported supplies of raw materials, spares and components. As the imbalance between aggregate demand and supply is likely to be greater than in the 1965 slack season, the Governor of the Bank called on banks in May 1966, to keep a watch over the credit situation and to ensure that credit extended during the preceding busy season against seasonal commodities such as foodgrains, sugar, cotton, jute, oilseeds, vegetable oils, etc. flowed back to the banking system. Banks were asked to invest in Treasury Bills the accretion to their resources during the slack season, by way of deposit increase and return flow of credit. The subsequent devaluation of the rupee has necessitated a stricter vigilance over the monetary and price situation. Devaluation by itself is not likely to affect the liquidity of the banks adversely-indeed it might even increase it. In this context, the Governor held discussions with the banks on the credit situation following Devaluation and its implications for future credit policy. Following from these discussions, banks have been asked to give priority for the credit needs of industry, exports and imports, while at the same time ensuring that unduly large inventories are not built up by industry. Banks have also been advised to strive for a significant credit reduction in respect of earlier credit expansion against seasonal commodities. With the prospect of a sizeable deposit expansion they should conserve their resources during the slack season and invest the whole of additional deposits in Government securities. This is necessary not only to hold the price line, but also to be able to meet the credit demands during the ensuing busy season, when banks would be called upon

to extend credit to essential sectors on a larger scale than in the 1965-66 busy season.

Balance of Payments

32. While the imbalances in the internal sector of the economy worsened with the growing inflationary situation, the external payments reached a state of critical disequilibrium during the year under review. Trade policy during the early part of the year sought, as in the past, to maximise exports and minimise the outlay on imports by widening the scope of selective devices such as export incentives through import entitlements, tax credits and other forms of assistance for exports, tightening of import controls and raising import duties. As regards invisibles too, incentives in the form of the National Defence Remittance Scheme were offered with a view to encouraging remittances from abroad through banking channels and thus to arrest the diversion of funds to the free markets abroad. The Scheme was in operation from October 26, 1965 to May 31, 1966 and about Rs. 70 crores were received under it. These measures were, however, inadequate to meet the situation as it developed. Export earnings failed to register any improvement. Payments for private imports fell off heavily but in the process created difficulties for sectors of industry dependent on imports. In the quarter April-June 1966 the deficit re-emerged. In order to tide over the difficulties and ease the pressure on the reserves, assistance to the extent of Rs. 95.3 crores(after meeting a repurchase obligation of Rs. 35.7 crores) was obtained from the International Monetary Fund. It became increasingly evident that more radical measures were necessary for correcting the imbalances in the economy including those in the external sector of the economy. The persistent and substantial rise in prices over the last few years has steadily raised costs in the economy and has made it more and more difficult for Indian exports to compete in international markets. The selective incentive measures viz., import entitlement schemes, tax credit certificates and straight subsidies in some cases meant to compensate the export industries for higher costs have proved inadequate in the context of the inflationary situation and called for periodic increases in their range and quantum. Moreover, these *ad* hoc remedies did not have the potential for bringing about a lasting solution either in the form of increases in output or lowering of the costs of production of the export industries. The success of import entitlement schemes for instance depended on the continuance of tight import restrictions. This meant that either the import using industries worked on a high cost basis as they could buy their inputs at high premia from the exporters or if their costs were reduced through import liberalisation then exporters suffered.

33. The effects of inflation have been equally harmful in regard to imports. In the context of a continuous rise in domestic prices, imported goods continued to command a premium (despite the progressive increase in import duties), as Indian prices of comparable goods have been well above world prices. In the result, imports when they could be obtained were considerably cheaper relative to domestic products. The relative cheapness of imports gave rise on the one hand to severe import restrictions which has affected the growth of industrial production and on the other to leakage of foreign exchange through smuggling. It is in this perspective that the decision to alter the par value of the rupee taken towards the close of the year has to be viewed. It was in order to ensure, ***inter alia,*** maintenance of existing exports by bringing about a better alignment between internal and external prices and thus giving exports greater competitive strength, that the rupee ***was*** devalued on June 6, 1966 by 36.5 per cent, the new par value being 0.118489 gram of fine gold per rupee. The change in par value, together with other follow-up measures to which a reference is made elsewhere in this report, is intended not only to simplify the exchange system and. pave the way for continuing improvement in export earnings in particular and in the external payments position generally but also for better all-round performance of the economy as a whole.

34. Over the accounting year 1965-66, there was an improvement of Rs. 267.2 crores in the reserves; this takes into account an appreciation (in rupee terms) of Rs. 150.3 crores in the foreign exchange components of the reserves, following the devaluation of the rupee. Expressed in terms of U. S.

dollars, the improvement in the reserves amounted to $255.6 million and this improvement takes into account a net borrowing of $ 200 million (Rs. 95.3 crores) from the International Monetary Fund, partly offset by a payment of $37.5 million (Rs. 17.9 crores) to the International Monetary Fund in February 1966 towards additional gold subscription, following the enhancement of the membership quota. If these items are allowed for, the reserves would show a moderate improvement of $93.1 million. In the preceding year, on the other hand, the reserves were drawn down by $65.6 million despite the assistance (net) of $75 million (Rs. 35.7 crores) provided by the International Monetary Fund and the replenishment of the monetary stock of gold to the extent of $ 33.6 million (Rs. 16 crores). To a large extent, the improvement witnessed during the accounting year reflects the impact of larger receipts by way of transfers from abroad under the National Defence Remittance Scheme, increased realisations of export proceeds and reduced payments for imports from countries other than the rupee payments area.

35. The latest balance of payments details available relate to the financial year 1965-66 (April-March). During the financial year 1965-66 the reserves improved by Rs. 48.3 crores in contrast to a draft of Rs. 56.2 crores in 1964-65. If the assistance provided by the International Monetary Fund and special transactions, such as the payment of gold subscription to the International Monetary Fund and the transfer of gold from non-monetary to monetary stocks during the respective years are excluded, the reserves would show an improvement of Rs. 36.4 crores in 1965-66 and a decline of Rs. 72.2 crores in 1964-65. The relatively favourable outturn witnessed in 1965-66 was due mainly to the narrowing down of the adverse trade balance following a drastic reduction in the import bill during the latter half of the year necessitated by the decline in the reserves. Increased remittances from abroad under the National Defence Remittance Scheme also contributed to some extent to this improvement. In addition, unidentified transactions (categorised as ‘Errors and Omissions’) which had for several years resulted in a net outflow turned favourable benefiting-the reserves. The overall deficit for the year 1965-66 which amounted to Rs. 449.3 crores was more than matched by the net inflow of capital from abroad of Rs. 497.6 crores resulting in a net accretion to the reserves of Rs. 48.3 crores, mentioned earlier. In the preceding year, on the other hand, the overall deficit at Rs. 507.9 crores exceeded the net inflow of capital from abroad of Rs. 451.7 crores, necessitating a draft of Rs. 56.2 crores on the reserves. It has to be pointed out, however, that the improvement in the balance of payments position was of a temporary character and could not have been sustained in the context of the increasing need for essential imports except by a revival of increased flow of external assistance.

36. As observed earlier, the import bill was pruned down by Rs. 60.7 crores to Rs. 1335.3 crores, of which Rs. 548.9 crores were on private account and Rs. 786.4 crores on Government account; the entire reduction was by way of a cutback in payments financed out of free resources. Aid-financed imports, on the other hand, were higher by about Rs. 25 crores. Almost the entire decline in the aggregate import bill reflected the reduced level of payments for imports of cotton raw and waste, mineral oils, machinery and vehicles on private account. Payments for imports on Government account were marginally higher by Rs. 2.9 crores. However, but for the statistical change introduced from April, 1965 according to which freight on P. L. 480 imports refunded by the U. S. authorities is deducted from imports, the payments for Government imports would amount to Rs. 820.2 crores compared to Rs. 783.5 crores in 1964-65 i.e., about Rs. 37 crores higher. While there was a reduction in the payments for imports of food, capital equipment and communication stores, payments for imports of miscellaneous stores showed a substantial rise.

37. Exports at Rs. 781.8 crores were lower than the preceding year by Rs. 20.9 crores. A part of this decline is attributable to the revised procedure for recording exports which became effective from the third quarter of the year. Exports, which were hitherto recorded as and when the consignments were approved for shipment, irrespective of whether the actual shipment had materialised or not, are now being recorded on a more realistic

basis at the time when the documents are negotiated by the respective financial intermediaries. Consequently, compared with the earlier practice there is a lag in the recording of exports now, which shows up by way of shortfalls in the absolute levels. Exports data (totals) assembled on the new basis for the last two quarters are partly estimated as complete information is not available; this also precludes a commodity-wise appraisal of the trends. Nevertheless, available indicators seem to suggest a decline in exports of tea, tobacco, vegetable oils, oilcakes and raw cotton which was only partly made up by the increase in exports of jute manufactures, iron ore and spices, particularly pepper. It may be pointed out, however, that the increase in the value of some of these exports e.g. jute manufactures is more due to higher prices than larger quantum. This points to the need for maintaining the existing quantum of exports, as high prices may not hold for long without inducing competition and substitutes.

38. On invisibles account, the net receipts by way of official transfer payments were nearly halved to Rs. 66.8 crores owing to a reduction in the disbursements of grants out of U. S. P.L. 480 counterpart funds. During the year, the other invisible transactions resulted in a surplus of Rs. 13.4 crores, which was Rs. 3.4 crores lower than in the preceding year. However, the comparative assessment is somewhat unrealistic because of the statistical refinement regarding the treatment of refund of freight initially borne by India on P.L. 480 imports, to which a reference is made earlier. If the receipts by way of refund of freights paid on P.L. 480 imports are taken into account, as in the 1964-65 compilations, the surplus on account of other invisible transactions would work out to about Rs. 47 crores, nearly thrice the surplus recorded in the preceding year. The entire improvement seems to have resulted from an increase in gross receipts following larger remittances from abroad under the National Defence Remittance Scheme (referred to in detail earlier). As the bank certificates issued in terms of this Scheme were transferable, the scheme provided an incentive for making remittances through banking channels and thereby helped to arrest the diversion of funds to the free markets. Gross invisible payments were also higher by about Rs. 14 crores due to the increase in investment income payments, particularly interest payments on external debt. Total investment income payments, which have been increasing continuously over the past years, amounted to Rs. 130.6 crores in 1965-66 as compared to Rs. 118.6 crores in 1964-65.

39. The net inflow of capital from abroad which amounted to Rs. 497.6 crores was higher than in the preceding year by Rs. 45.9 crores. As in the past it comprised mostly the net inflow to the official sector which improved over the year by Rs. 61.1 crores to Rs. 511.3 crores, benefiting mainly from the net assistance provided by the International Monetary Fund and an increase in the rupee liabilities arising out of commodity assistance provided under the P.L. 480 programme. While amortisation payments were higher by Rs. 9.2 crores, drawings on loans extended under the various external assistance programmes were lower by Rs. 87.1 crores due largely to the reduction in the disbursements of loans out of U. S. P.L. 480 counterpart funds. As in the preceding year, there was a net outflow from the banking sector, though on a slightly reduced scale. The net outflow, which amounted to Rs. 6.6 crores, was mostly due to the liquidation of the authorised dealers' foreign currency liabilities and an increase in their foreign currency assets. This was to some extent offset by the increase in rupee liabilities arising out of Cooley Fund account balances. Unlike in the preceding year, private capital movements resulted in a net outflow of Rs. 7.1 crores due to sizeable disinvestments by the oil companies.

40. As regards developments in exchange control during the year, the general policy continued to be restrictive except for some liberalisation of the restrictions (a) on travel abroad for business purposes, and (*b*) borrowings abroad by the authorised dealers in India. The scheme of issuing blanket permits for release of exchange to recognised export houses set up for exploring new markets for non-traditional goods, which was introduced in July 1963, as an export promotion measure, was extended during the year to exporters of jute and tea whose annual average exports amounted to Rs. 1 crore and to exporters of

other traditional items whose annual average exports exceeded Rs. 50 lakhs. The ceiling of Rs. 20 lakhs, imposed in October 1964, on short-term borrowings abroad by authorised dealers, to which a reference was made in the last report, was reviewed during the year and authorised dealers were advised that overdrafts in excess of the limit would be permitted provided such borrowings were for financing their normal business operations in India by purchasing rupee funds from the Reserve Bank. But such borrowings could be repaid only when (a) the authorised dealer concerned had no outstanding borrowings either from the Reserve Bank or other banks in India and *(b)* local inter-bank call money rate was less than the Treasury Bill rate for the week. The latter stipulation was, however, withdrawn later, but prior approval of the Reserve Bank was necessary for each remittance in repayment of such loans and overdrafts. Following the outbreak of Indo-Pakistan hostilities, all foreign exchange transactions with Pakistan were suspended in September 1965.

External Assistance

41. External assistance authorised during 1965-66 (April-March) at Rs. 604 crores showed a marked decline (of Rs. 140 crores) over the year partly as a result of suspension of aid by the U.S.A. and delay on the part of some other Aid-India Consortium Members following the outbreak of hostilities with Pakistan in September 1965 and partly because of lower aid from the East European countries. A little over one-half (52 per cent) of the loans authorised during the year was in the form of non-project aid as against nearly one-third in the preceding year. The larger availabilities of non-project assistance and higher imports under the P.L. 480 assistance programme, which were intended to relieve the domestic shortages of foodgrains and raw materials, facilitated a quicker utilisation of external assistance which increased from Rs. 719 crores during 1964-65 (April-March) to Rs. 759 crores in 1965-66 (April-March).

42. The year under review marked the completion of the Third Five Year Plan. During the Plan period (April 1961-March 1966), the total assistance authorised amounted to Rs. 2,886 crores. Including the spill-over from the Second Plan, the total foreign assistance available for utilisation in the Third Plan period was Rs. 4,140 crores of which Rs. 2,851 crores were utilised by the end of March 1966. The utilisation of foreign aid (excluding P.L. 480 and similar assistance) during the Third Plan at Rs. 1,998 crores was more than double that in the Second Plan (Rs. 885 crores); even so, it fell short of the target (Rs. 2,600 crores) stipulated in the Plan document.

Foreign Investment Policy

43. Official policy during the year towards foreign investment was one of added emphasis on its role in certain selected fields. The response from foreign investors, as reflected in the consents granted by the Controller of Capital Issues, was encouraging. The value of consents to non-residents increased from Rs. 71 crores in 1964 to Rs. 82 crores in 1965. The number of collaboration agreements approved by Government was, however, only 242 as against 403 in 1964 and 298 in 1963.

44. Among the important new measures aimed at encouraging foreign investment, mention may be made of the extended Risk Guarantee Programme which, together with the Specific Risk Guarantee Programme, constitutes the total range of guarantees available to private U.S. investors. Such guarantees would be available only to new investments in projects approved by the Government of India. Another measure for inducing foreign investment was a double taxation avoidance agreement concluded with the U.S. during the year; this agreement awaits ratification.

45. With a view to encouraging foreign investment in fertilisers industry Government have announced a seven-year holiday in approved cases from price and distribution control subject to Government's option to purchase 30 per cent of the production at a negotiated price. In joint ventures, which will be set up in this field, the intending foreign collaborators can have a majority share holding if they so wish. Government will

also help the incoming firms to obtain the necessary rupee capital, if it does not come through the normal channels.

46. In keeping with the growing importance of mutual help among the developing nations, it has been the Government of India's policy to encourage the setting up of industries abroad by Indian industrialists in collaboration with their foreign counterparts, subject to the availability of resources. As an inducement to Indians investing abroad, the Finance Act, 1966-67, provided for a concessional rate of tax of 25 per cent on (i) the dividend received by an Indian company from a foreign company on shares allotted to the former in consideration for supplying technical 'know-how' or rendering technical services and (ii) on royalties, commissions, fees etc. received in this regard.

Post-Devaluation Trade Policy

47. The devaluation of the Rupee brought in its wake substantial changes in the trade policy. The special export incentives provided through import entitlements and tax credit schemes were withdrawn and export duties were imposed on twelve of the traditional commodities at varying rates in order to divert into the exchequer a part of the profit arising from increased rupee export earnings through devaluation. There was a departure from the austere import policy followed hitherto. The new import policy aimed at (1) enlarging the flow of essential imports to certain crucial sectors such as agriculture, export and certain consumer goods industries, (2) increasing imports of articles of mass consumption and (3) providing for the requirements of small-scale producers. Arrangements were made to meet in full the import requirements (for six months to begin with) of 59 industries designated as priority industries. The import policy, however, continued to be restrictive in respect of low priority industries. The import duties on several items were reduced so that the total import cost of essential raw materials, intermediates, machinery and spares is not out of line with the cost of comparable domestic products.

Retrospect and Prospect

48. The developments during the year 1965-66, surveyed in the foregoing paragraphs, mark a turning point for the economy in several ways. The critical phase in development which the economy has reached has not only created serious distortions in the short-run but has necessitated a careful rethinking of the strategy of future development.

49. In retrospect, the progress of the economy during the Third Five Year Plan which has recently ended has been uneven and considerably slower than what was envisaged. Both the major sectors, namely, agriculture and industry, have contributed to the shortfalls from the plan targets. Owing to vagaries of the monsoon, lack of timely and sufficient supplies of agricultural inputs and inadequacies of organisational effort, growth in agricultural production has been slow and highly variable. An exceptionally bad monsoon has in fact caused the index of agricultural production for 1965-66 to be at the same level as in 1960-61. But even if the figures of output for 1964-65 are taken agricultural production showed a growth of no more than 2.8 per cent per year on an average as against the target of 5 per cent increase per year. Industrial production increased by 39 per cent over 1960-61 as against the planned target of 70 per cent. National income in real terms appears to have grown at a rate around 2.5 per cent per annum though, if the performance of the first four years is considered, the average works out to 4.3 per cent a year as against the growth rate of 6 per cent per year assumed in the Plan. As the population has continued to grow at the rate of 2.5 per cent per annum there was hardly any increase in per capita real income by the end of the Plan. Though the total Plan outlay in the public sector for the Third Plan period is estimated to have exceeded the financial target of Rs. 7,697 crores, investment in real terms would show a sizeable shortfall in relation to the target because of the rise in prices. Money supply has on the other hand, increased by 57.9 per cent over the Plan period, the expansion in the currency component being 44.6 per cent. Such disparity between the growth of income and the growth of purchasing power has intensified the pressure of aggregate demand in the economy resulting

in a price rise of 32.2 per cent over the five-year period, the price rise in the last two years of the Plan being 22.0 per cent. On the external side of the economy, exports, which showed encouraging signs of growth in the early years of the Plan, ceased to grow as inflationary conditions at home made exports more and more uneconomical and required assistance on an increasing scale. Imports, on the other hand, remained at high levels, despite strict controls, largely because of the inexorable needs of the economy on account of development and defence. On the invisibles account, there was a worsening on both sides, as receipts fell off due partly to diversion to unofficial markets and payments grew on account of interest and profit payments. The. experience of schemes of assistance to visible and invisible exports through practices resembling a multiple exchange system was that while these schemes were useful over a limited range and period, their continuance aggravated rather than helped to solve the underlying problem of loss of competitive power. Devaluation thus became all the more necessary to correct the handicap caused by inflation to external viability. Although a substantial volume of foreign aid was made available, the pressure on the reserves intensified particularly during the last two years of the Plan and recourse had to be had to the International Monetary Fund on a large scale, thus running down the second line of reserves to a large extent. Currently, India's drawings from the Fund are in the second credit tranche.

50. No doubt, during the Third Plan period, the economy was bedevilled with difficulties of an extraordinary character such as the Chinese invasion of 1962, the Indo-Pakistan War in 1965 and a more than average run of poor monsoons including an exceptionally bad one. Also, it has to be recognised that notwithstanding these difficulties, both the infra-structure of the economy as well as the structure of basic industries have been developed to a stage capable of sustaining a higher rate of growth in the future. Yet the important lesson that emerges from the experience during the Third Plan period, particularly in the last three years, is that development without relative price stability is not a helpful process. For the success of the Fourth Plan, therefore, it is of the utmost importance that a determined attack on the root causes of the malady of inflation is made. Otherwise, considerable distortions in the economy are likely to occur as a result of persistent inflation. Cost estimates of planned programmes of investment would go awry. Wage demands would multiply giving rise to spiralling effects as between wages and prices and also as between wages in one industry and another. Voluntary savings would be affected adversely. Resources would be diverted to unproductive forms of investment and the international payments position which is already weak would be further endangered.

51. A major part of the difficulties in the Third Plan stemmed from the fact that while resources grew at an erraticand slow pace the economy was faced with additional demands for defence and the tempo of investment in both the public and private sectors continued to remain high. Both the public and the private sectors resorted to bank credit on an increasing scale, as taxation and voluntary savings proved inadequate to meet these demands. To avoid the recurrence of such an experience the maintenance of a safety margin to offset the effect of uncontrollable factors—for, the country has not yet reached a stage where agriculture can be effectively insulated from the vagaries of weather-is a basic necessity to be kept prominently in view while implementing the Fourth Plan.

52. It is important to note that the growth in the Fourth Plan depends largely on the results achieved through the investments made in the earlier plans. To the extent that there have been shortfalls in the planned investment in physical terms and consequent distortions in the productive structure there will be constraints on the achievement of a high rate of growth. The experience of the Third Plan of bottlenecks in transport, power, exportable commodities and imported raw materials and components arising from time to time and delaying growth is very relevant in this context. Such bottlenecks have resulted in lengthening the period between making the investment and realising the fruits of investment and in the process have added to inflationary pressures.

53. What matters even more than the size of the Plan is its contents and implemen-

tation. A vital element in the short-term strategy of growth is strict control over deficit financing. The decision of the Government not to resort to deficit financing during the Fourth Plan s'hould ensure that existing inflationary pressures are not aggravated. In this context the annual budgets of the Governments assume added importance. The adoption of a system of regulating annual outlays taking into account the emerging trends in the economy in such matters as the volume of savings, the supply of wage goods, the pressure on prices and so on, appears essential.

54. At the same time it is also necessary to plan for a proportionately larger production of wage goods in the near future. This will help to maintain price stability and encourage voluntary savings. From this point of view agriculture will play a key role in the Fourth Plan as it supplies either the wage goods themselves or practically all the raw materials for them. The recent emphasis on intensive cultivation over a large area as also that on augmenting the supplies of fertilisers and other inputs is, therefore, a fruitful development. In the industrial sector, the resumption of flow of foreign aid and the increase in the proportion of non-project assistance should go a long way in removing the difficulties recently caused by the foreign exchange bottleneck. The resulting increases in production would under conditions of price stability lead to a corresponding growth in the investment resources of the economy and would provide a sound basis for future development.

55. While the short-term strategy of growth has to concentrate on the reduction of inflationary pressures the long-term strategy has to be conceived in terms of attaining in the shortest possible time the stage of self-sustaining growth. Continuation of foreign exchange difficulties and the resultant dependence on foreign aid not only imparts an element of rigidity to the plans but it also makes the whole planning process uncertain. Decisions to undertake projects become dependent on whether the aid for them is forthcoming and not according to priorities laid down in the Plan. Project costs also depend on the countrywise availability of aid. The shift that has taken place in recent years in favour of non-project assistance would help to reduce such distortions to some extent. But this should not lead us to overlook the urgency of making our development process independent of the availability of external assistance. This is all the more imperative if the future of such assistance is viewed in a wider perspective. The trends in world economic and political climate, the growing demand for development assistance from the developing countries, the particular economic difficulties an aid-giving country may be faced with, all point out the need to achieve self-reliance as early as possible.

56. Export promotion and import substitution are the two prongs' of the long-term strategy of self-sustaining growth. As regards exports, the strong attraction of the domestic market and increasing costs of production have been the major obstacles. Control of inflation should reduce the former even as devaluation would help to overcome the handicap of the increase in the cost structure that has taken place hitherto. The emphasis in export promotion has now to be on increasing the productivity of export industries through greater investment in them rather than on subsidies in various forms which merely compensate the exporter against a loss in the export market. As instruments of export promotion subsidies have a very limited usefulness. They may be necessary in selected cases, specially where exports from the newly established industries are sought to be promoted. But it has to be recognised that these are only temporary expedients incapable of removing any inherent weakness which hampers the growth of exports. Their use should, therefore, be limited only to those cases where the exports can stand on their own within a reasonable period without any subsidies. The problem of exports is indeed a much more fundamental one and has to be treated as a national problem in which Government, industry and agriculture co-operate at all levels to exploit to the fullest extent export possibilities of the various sectors. With its variegated agriculture and industry, it should not at all be difficult for the country, provided the necessary effort to establish export markets and to ensure a sustained rate of production is made, to attain the requisite growth in exports.

57. Import substitution also is no less important in the drive towards external

viability. A good deal of progress has indeed been made in the past in this respect. There is, however, a danger that greater availability of non-project assistance may reduce the tempo of import substitution and thus provide a set-back to the objective of self-reliance and make non-project assistance a chronic necessity. Every effort has to be made to avoid reaching such state of affairs.

58. To the extent that the implementation of the Fourth Plan provides for appropriate adjustments in the light of such considerations the existing tensions in the economy would be alleviated and growth accelerated. This does not mean, however, that the need for discipline in fiscal and monetary matters would be lessened. Policies in these fields will of course have to be suitably adjusted to the changing requirements of the situation. But this would have to be subject to the overall requirement that the changes made are in the direction of attaining maximum level of productivity with the available physical resources. In the fiscal sphere this would mean avoidance of wasteful expenditures and if necessary, postponement of schemes which have no immediate bearing on productivity. In the monetary sphere it means harnessing the tools of monetary policy both to promote development and to maintain conditions of monetary stability.

59. There are indeed a number of other important aspects of planning which are relevant to the basic objective of improving productivity in the economy. Common to all these is the realisation by everyone that planning implies a measure of self-discipline, willingness to sacrifice current benefits for the future. The success of planning depends vitally on the extent to which this realisation forms the basis of everyday actions.

60. The process of planned economic development of the country which has been going on for a decade and a half has already resulted in a wide net-work of infra-structural facilities and a rapidly growing modern industrial base for the economy. The foundations have thus been laid for the achievement of a self-reliant and growing economy. If against this background there has been some set-back during the Third Five Year Plan, the difficulties are neither chronic nor insurmountable. With the realisation that agricultural production needs the highest priority and given a firm determination to avoid deficit financing in both public and private sectors and to devote all energies to the fulfilment of the basic objectives of the Plan, it should not be too difficult to achieve a rate of growth commensurate with the needs of the economy.

II. DEVELOPMENTS IN INDUSTRIAL FINANCE AND COMMERCIAL BANKING

61. The progress made in the field of commercial and co-operative banking and the developments in industrial finance are reviewed in this and the subsequent section which bring out the increasing effectiveness of the banking system in meeting the demands made on it. During the year the Bank assumed powers of statutory regulation over co-operative banks. With a view to regulating the business of acceptance of deposits by non-banking companies the Bank has issued necessary directives. The question of providing for a more effective control and development of these institutions carrying on banking or para-banking activities in the unorganised sector is also under the Bank's consideration and for this purpose a new Department has been set up at Calcutta.

Banking Legislation

62. In the field of banking legislation, an important development was the passing by Parliament of the Banking Laws (Application to Co-operative Societies) Act, 1965, which *inter alia* amended the Reserve Bank of India Act, 1934 and the Banking Companies Act, 1949. The Act provides for the extension of certain provisions of these two Acts to State co-operative banks, central co-operative banks and the more important primary non-agricultural credit societies, including, in particular, urban co-operative banks. The Act also provided for the renaming of the Banking Companies Act, 1949 as the Banking Regulation Act, 1949. The important provisions of this legislation are described in section III.

Industrial Finance : Industrial Development Bank and other Term-Lending Institutions

63. With the strengthening of the organisational set-up, the institution of appropriate machinery for appraisal of industrial projects -and streamlining of procedures, the Industrial Development Bank of India recorded a significant expansion in its operations, particularly in respect of direct assistance, during 1965-66—the second year of its working.

64. Direct financial assistance in the form of loans, underwriting of shares and debentures and guarantees for loans and deferred payment arrangements, were sanctioned* by the IDBI in respect of 49 applications (relating to 38 concerns) for a total sum of Rs. 59.03 crores as against Rs. 29.77 crores in respect of 37 applications during the previous year. Of the total sanctions, underwriting of shares in respect of 22 applications accounted for Rs. 7.53 crores, loans to 23 industrial concerns for Rs. 35.62 crores and guarantees (at post-devaluation exchange rates) for Rs. 15.88 crores in respect of 4 concerns. In the preceding year, the corresponding sanctions were : underwriting of shares and debentures Rs. 6.61 crores on 27 applications, loans Rs. 16.14 crores on 7 applications and guarantees Rs. 7.02 crores on 3 applications. As in the previous year, the bulk of the direct financial assistance sanctioned was in respect of new projects and was spread over a wide range of industries, both traditional and non-traditional, such as cotton textiles, paper and pulp, cement, petro-chemicals, special steels, manufacture of machinery and metal products. There was also a marked rise in disbursement of direct assistance. The Bank disbursed during the year Rs. 25.23 crores as against Rs. 0.4 crore during 1964-65. Of the amount disbursed, Rs. 19.89 crores were on account of loans and Rs. 5.34 crores in respect of underwriting of shares and debentures. Commitments outstanding in respect of loans and underwriting assistance amounted to Rs. 39.53 crores as against Rs. 22.68 crores at the end of June 1965.

65. Under the scheme of refinancing industrial loans, the Bank sanctioned 177 applications for Rs. 21.12 crores, as against 117 applications for Rs. 21.73 crores in 1964-65. The decline in the amount of refinance assistance reflected the deliberate policy of diversion of applications for relatively large amounts to direct lending by the IDBI in participation with other financial institutions. Industrial loans disbursed increased marginally to Rs. 21.38 crores as against Rs. 21.17 crores in 1964-65. Under the scheme for refinancing medium-term export credits, 3 applications for Rs. 0.68 crore were sanctioned while the amount disbursed during the year was Rs. 0.89 crore. Under the scheme for guarantee of advances to private sector coal industry, 11 guarantees for Rs. 0.58 crore were issued during the year, as against 11 guarantees for Rs. 0.43 crore in the previous year.

66. During the year, the IDBI contributed Rs. 0.40 crore to the share capital of the Madras Industrial Investment Corporation Ltd. and the Maharashtra State Financial Corporation. An amount of Rs. 1.27 crores was subscribed by the IDBI to the bond issues by Maharashtra, Uttar Pradesh, Madhya Pradesh, Orissa and Gujarat State Financial Corporations, bringing its total subscriptions to shares and bonds of financial institutions so far to Rs. 3.84 crores. These operations were financed out of the borrowings from the National Industrial Credit (Long-Term Operations) Fund of the Reserve Bank of India.

67. The scheme for rediscounting bills of exchange/promissory notes arising from sales of indigenous machinery on deferred payment basis and discounted by approved banks and other financial institutions, introduced last year, was extended during the year to bills/promissory notes arising from sales of indigenous agricultural implements by machinery manufacturers on deferred payment basis. The list of eligible institutions under the scheme was also widened to include the Industrial Finance Corporation of India, all State Financial Corporations and 8 State co-operative banks, bringing the total number of eligible institutions to 84. During the year, the IDBI sanctioned under the scheme, credit limits to 15 eligible institutions, the amount of bills rediscounted being Rs. 2.25 crores.

* Effective sanctions, i.e. gross sanctions *minus* sanctions which have lapsed.

68. With a view to supplementing the refinance operations with a measure of risk-sharing with other institutions on a systematic basis, the IDBI introduced on April 1, 1966, a scheme for participation in loans and guarantees. The financial institutions covered under the scheme are those scheduled banks, State co-operative banks and term-lending institutions which are eligible for refinancing facilities. Participation is restricted ordinarily to public limited companies in the industries falling within the priority sectors of the economy. The maximum extent of IDBI's participation in a loan is fixed at 75 per cent and in exceptional cases at 80 per cent. The IDBI also participates with financial institutions in the issue of guarantees for loans, deferred payment arrangements, etc.

69. During the year, the IDBI reviewed its policies and worked out certain broad guidelines regarding the operational strategy including the question of industrial priorities. Accordingly, it has been decided that assistance to small projects may be arranged more adequately by other term-lending institutions, whose resources could be suitably augmented by the IDBI by contributing to their share capital or bonds and/or by extension of refinancing facilities. This would enable the IDBI to have more effective assessment and supervision of larger projects, which in any case cannot come to fruition without its assistance. In considering direct financial assistance as also refinance, the IDBI would give preferential treatment generally to defence and export-oriented industries, essential consumer goods industries and those providing for agricultural development as well as industrialisation.

70. As the capital market has been sluggish, the corporate sector continued to rely heavily on the financial institutions for its capital requirements. During the calendar year 1965, the Industrial Credit and Investment Corporation of India sanctioned assistance amounting to Rs. 24.20 crores as against Rs. 22.66 crores in 1964. Of this, rupee assistance in the form of loans, underwriting of shares and direct subscriptions to ordinary and preference shares and debentures amounted to Rs. 12.40 crores and foreign currency loans to Rs. 11.80 crores. Disbursements during the year including disbursements in foreign currencies were appreciably higher at Rs. 19.20 crores than in 1964 (Rs. 15.29 crores) and 1963 (Rs. 10.76 crores). Since its inception in 1955 upto the end of 1965, the Corporation sanctioned assistance for a total of Rs. 123.96 crores (net) to 390 companies, of which 179 were new undertakings. Disbursements totalled Rs. 73.51 crores or about three-fifths of total sanctions. The loans and advances outstanding of the Industrial Finance Corporation of India and the State Financial Corporations also increased by Rs. 16.08 crores and Rs. 10.97 crores, respectively, during 1965-66, as against an increase of Rs. 12.55 crores and Rs. 9.16 crores during 1964-65 (July-June). Besides, the Industrial Finance Corporation of India and the State Financial Corporations invested in shares of industrial concerns either as direct subscription or as fulfilment of underwriting obligations. Among the State Financial Corporations, the bulk of the contribution was by the Madras Industrial Investment Corporation Ltd. Two Corporations also subscribed to the debentures of industrial concerns.

71. With a view to meeting the increased demand for industrial finance, the Industrial Credit and Investment Corporation of India, the Industrial Finance Corporation and other financial institutions augmented their resources during the year under review. In 1965, the Industrial Credit and Investment Corporation of India strengthened its equity base by making a rights issue of Rs. 2.5 crores in September 1965 in the proportion of one new ordinary share for every two shares held. The Corporation also obtained from the Government of India a further loan of Rs. 5 crores out of the P. L. 480 funds, bringing its total borrowings from the Government to Rs. 32.5 crores. As regards foreign exchange resources, negotiations are under way for a fifth line of credit of DM 20 million from the Kreditanstalt fur Wiederaufbau. The Industrial Finance Corporation of India made a private issue of $5\frac{1}{2}$ per cent 12-year bonds for Rs. 2 crores at 99 per cent in December 1965. The foreign exchange resources of the Corporation were augmented during the year by two loans one in July 1965 and another in March 1966 for DM 15 million and DM 20 million, respectively, from the Kreditanstalt fur Wiederaufbau. Six State

Financial Corporations floated bonds during the year for an aggregate amount of Rs. 5.75 crores. Some State Financial Corporations accepted tied deposits, while the Madras Industrial Investment Corporation had, in addition, call deposits and cash certificates. The State Financial Corporations have also been availing themselves of short and medium-term borrowing facilities from the Reserve Bank under Section 7(2)(a) and Section 7(2)(b) of the State Financial Corporations Act. Some of the Corporations have also been availing themselves of the refinancing facilities from the Industrial Development Bank of India.

72. In terms of Section 37A of the State Financial Corporations Act, 1951, five State Financial Corporations were inspected by the Reserve Bank during the year under review.

Financing of Small-Scale Industries

73. The Government of India scheme for the guarantee of advances granted by specified banks and financial institutions to small-scale industries initiated in July 1960 made further progress during the year. The Reserve Bank, which is concerned with the administration of the scheme, received during the year 14,208 applications for credit limits totalling Rs. 60.19 crores as against 9,015 applications for Rs. 39.29 crores in 1964-65 and 5,343 applications for Rs. 23.08 crores in 1963-64. The amount for which guarantees were issued rose from Rs. 17.95 crores in 1963-64 to Rs. 29.47 crores in 1964-65 and to Rs. 50.45 crores in -1965-66. Since the inception of the scheme upto the end of June 1966, 34,408 applications for guarantee in respect of credit limits aggregating Rs. 145 .66 crores were received and 29,628 guarantees covering credit limits amounting to Rs. 116.67 crores were issued. As in the preceding years, most of the applications in 1965-66 continued to be received from the State Bank of India, although other specified credit institutions are increasingly availing themselves of this facility. Following a recent review of the scheme made by the Guarantee Organisation, the Central Government approved further substantial liberalisations, which came into force from August 1, 1966. The more important aspects of this liberalisation are: (a) the expansion of the list of eligible institutions to include all central co-operative banks and specified non-scheduled banks, (b) enhancement of the extent of guarantee cover as also the maximum amount of loss recoverable and (c) increase in the maximum period for guarantee for term advances from 7 to 10 years.

74. In the districts of Amritsar, Ferozepur, Gurdaspur, Jullundur, Kapurthala and Ludhiana in the State of Punjab, where economic life had been disrupted on account of outbreak of hostilities with Pakistan, temporary liberalisations were made in the provisions of the scheme, which would be applicable to fresh advances as well as renewals and also enhancements in credit limits granted during the period October 16, 1965 to end-February 1966. The maximum amount recoverable from the Guarantee Organisation in respect of such advances was raised from Rs. 1 ***lakh*** to Rs. 2.5 ***lakhs.***

75. Under its liberalised scheme the State Bank of India provided assistance to small-scale industrial units on an increasing scale. The number of units assisted rose from 7,008 at the end of March 1965 to 9,171 at the end of March 1966 ; the working capital limits sanctioned to them under the Scheme also rose sharply from Rs. 35.23 crores at the end of March 1965 to Rs. 51.32 crores by the end of March 1966. The amount of outstanding advances stood at Rs. 27.55 crores on March 31, 1966.

76. The State Bank and its subsidiaries also provided (i) medium-term credit facilities to small-scale industries for expansion and modernisation, (ii) credit under the Instalment Credit Scheme to small and medium-sized business concerns engaged in approved manufacturing operations for purchase of equipment or machinery and ***(iii)*** advances to units in the Rural Industries Projects, constituted by the State Governments. The State Bank, in addition, provided financial assistance to industrial co-operatives and also working capital facilities under the Guarantee Schemes of the National Small Industries Corporation, Ltd.

Unit Trust of India

77. In the second year of its operations, the Unit Trust of India was able to expand

further its unit capital through sale of units, although the net accretion was of a small order. Applications for sale of units received during the year **totalled** 10,024, of which 9,994 applications were from individuals. The total amount subscribed was Rs. 215.44 lakhs, Rs. 213.61 lakhs from individuals and the balance of Rs. 1.83 lakhs from corporate bodies. Repurchase of units during the year amounted to Rs. 108.76 lakhs or 5.2 per cent of the aggregate funds subscribed by unit holders. The experience of the Trust in this regard is quite in line with unit trusts and also mutual funds of the U.K. and the U.S.A., respectively, where the corresponding percentage ranges between 5 and 7. The Trust extended, during the year, sale of units to non-residents also, following the general permission in this behalf given to the Trust by the Reserve Bank. With a view to popularising sales of units among the larger sections of the community, arrangements were made for sale of units from July 1966 through nearly 14,000 post offices in addition to 4,000 offices of leading banks. In addition to the 'approved' brokers on the stock exchanges, the Trust has, so far, appointed over 300 individual agents to canvass the sale of units and generally assist investors in purchasing units.

78. For 1965-66, the second year of its working, the Trust announced a dividend of 70 paise per unit of Rs. 10 *i.e. 7* per cent per annum to unit holders.

79. The Unit Scheme 1964 offered by the Trust is meant to serve a wide class of investors. The question of devising other types of Unit Scheme and Saving Plan to cater to the varying investment preferences of the various categories of investors has also been under the consideration of the Trust. To enable the Trust to promote these schemes/plans, the Unit Trust of India Act, 1963 was amended by the Unit Trust of India (Amendment) Act, 1966 passed by Parliament in May 1966. Following the amendment, the Trust announced a 'Reinvestment Plan', effective July 1966, which offers to the existing unit holders the facility of automatic reinvestment of the income distribution due on the units held by them in further units. The Plan thus gives an opportunity to the existing unit holders to bring about an automatic growth of their investment in units. As part of the amendment to promote the sale of units, the Reserve Bank may, in terms of Section 20A, pay to the Trust from time to time, from out of the income distribution payable to the Bank by the Trust, any sum to be utilised by the Trust solely for meeting the losses arising out of or any additional amount required in connection with the variations made in the sale and repurchase price of a unit. Applications from existing unit holders for reinvestment of the income distributable for the year ended June 1966 numbered nearly 4,400. The number of units, with respect to which such reinvestment facility has been asked for, is 10,94,700. The Trust has also initiated action to formulate a Savings-cum-Insurance Plan. At the request of the Trust the Reserve Bank has appointed a Working Group on Savings-cum-Insurance Plans for the formulation of a suitable Plan. Institution of other plans like the Children's Gift Plans and Savings Plans is also under the consideration of the Trust.

80. An analysis of the sale transactions of the Trust upto December 1965 shows that bulk-nearly 80 per cent-of the applications from individuals was for units in lots of hundred or less. An occupational distribution of the unit-holders shows that "salary and wage earners" form the largest single group accounting for half the number of applications received. Nearly 50 per cent of the applications received and about 60 per cent of the sales made by the Trust were concentrated in the five major cities, namely, Bombay, Ahmedabad, Delhi, Calcutta and Madras.

Strengthening of the Banking Structure

81. The Reserve Bank's policy of encouraging non-viable units to merge with other banks so as to form strong regional units was pursued during the year under review. Fourteen banks transferred their liabilities and assets to eleven other banks. The business of three banks was taken over by the subsidiaries of the State Bank of India. No bank was amalgamated with another bank under Section 44A of the Banking Regulation Act. In 1964-65, 57 banks had transferred their assets and liabilities to 19 other banks, while eight banks were voluntarily amalga-

mated with five other banks. As regards reconstruction/amalgamation of banks under Section 45 of the Banking Regulation Act, 1949, two Pakistani banks were granted moratorium during the year, bringing the total number of banks to which moratorium has so far been granted to 56. Four banks which were under moratorium on June 30, 1965, were amalgamated with four other banks during the year under review. As regards liquidation of banks during 1965-66, two lion-scheduled banks were ordered to be wound up by Court, while nine others went into voluntary liquidation, after obtaining from the Reserve Bank a certificate under Section 44(l) of the Banking Regulation Act. Certificates under Section 44(l) of the Banking Regulation Act, 1949, were issued to 24 non-scheduled banks to enable them to go into voluntary liquidation.

82. In pursuance of the objective of annual inspection of all banks, with a view to ensuring a sound banking system, 63 scheduled banks and 29 non-scheduled banks were inspected during 1965-66 under Section 35 of the Banking Regulation Act. In addition, scrutiny of the affairs of 82 banks was carried out for various purposes, the more important of which were : *(i)* judging whether there is a ***prima facie*** case for misfeasance proceedings, ***(ii)*** issue of certificate under Section 44(l), 49 C, ***(iii)*** assessing impact on the transferee banks of the acquisition of business of other banks, (iv) determining the future set-up of banks and (v) investigating the alleged misappropriation of funds.

83. After examining the comments/representations received from 93 banks on the inspection reports, directives were issued in 49 cases while 17 banks were asked to submit periodical progress reports. No action was considered necessary in the case of 21 banks while the remaining six cases were under consideration. In some cases, representatives of banks were called for informal discussions with a view to pointedly bringing to their notice the main defects in the working of the institutions concerned and to impress upon them the need for taking expeditious steps for removing the defects in the working of the institutions concerned. There are at present 55 banks (31 scheduled and 24 non-scheduled) working under directions issued by the Bank and submitting periodical statements. In most cases, observers have been deputed to attend the Board/Committee meetings of the banks and to carry out periodical scrutiny of their current affairs.

Deposit Insurance Corporation

84. The number of banks insured under the facility provided by the Deposit Insurance Corporation declined further from 138 at the end of June 1965 to 107 by the end of June 1966 consequent upon the cancellation of registration of 31 banks, mainly as a result of amalgamations and transfers of deposit liabilities and equivalent assets to other insured banks. No payments had to be made during the year in respect of the insured deposits. Since its inception in January 1962 upto the end of June 1966, the Corporation has met claims aggregating Rs. 38.59 lakhs relating to nine banks. During the year, the Corporation received reimbursements amounting to Rs. 2.26 lakhs in respect of claims of three banks met earlier ; total reimbursements received since 1962 amounted to Rs. 14.13 lakhs and related to eight banks.

Branch Expansion Programmes

85. Mention was made in the preceding two Reports of the emphasis in the Reserve Bank's policy on the spread of banking facilities to unbanked or under-banked areas, notably to semi-urban and rural areas. It was also mentioned that the Bank advised commercial banks to draw up their programmes for branch expansion in stages for a period of three years from August 1, 1962 to July 31, 1965, so that its permission could well be obtained in advance. This new procedure, which seeks to co-ordinate the programme of the various banks for promoting a planned and systematic extension of banking facilities, to all the regions of the country evoked good response from the banks. During the three years, August 1962 to July 1965, when the programme came to a close, licences were issued to 47 banks for opening 616 new offices, including 231 at unbanked centres. Banks have so far opened 587 new offices, of which 220 are at unbanked centres. In view of the distinct advantages of the system of obtaining in advance, branch expansion programmes from banks, the first expansion

programme of commercial banks (other than the State Bank of India and its subsidiaries) was followed up, by another one extending over a period of two years ending July 1967. The banks were asked to (i) quicken the pace of extension of banking facilities in some of the States which are comparatively under-developed in banking and (ii) continue their efforts towards the opening of branches at centres devoid of any banking facilities. After examining proposals submitted by banks, permission was given for opening 650 offices, of which 232 are in unbanked centres. Licences have been issued for opening 233 new offices, of which 79 are in unbanked centres. Under the second expansion programme, banks have opened 129 new offices (including 42 at unbanked centres).

86. The State Bank of India in its second phase of expansion between July 1, 1960 and June 30, 1965, had undertaken to open 300 branches between itself and its subsidiaries in the ratio of 145 to 155. It was subsequently felt that an expansion programme of this order was inadequate, as it would leave a large number of treasuries and sub-treasuries without banking facilities. The State Bank, therefore, undertook to open 319 branches between January 1, 1964 to December 31, 1968, under the third accelerated five-year programme. In the second phase of expansion, the Bank opened 118 branches against a target of 145. An additional fourteen branches (including one at Gangtok in Sikkim) were opened under this programme between July 1965 and June 1966. It was also agreed that further centres may be included in the Bank's expansion programme and these also be treated as falling under the second phase expansion programme. Thus, the number of approved centres as at the end of June 1966, under the second expansion programme stands at 163. Under the third expansion programme, the Bank opened 78 branches during the year ended June 1966. In order to ensure continuity of the expansion programme, the subsidiary banks were asked to proceed with the second expansion programme (July 1965 to June 1970), after the completion of the first in June 1965. During the year ended June 1966, the subsidiaries opened 34 branches under this programme.

87. The State Bank has also drawn up a scheme for the opening of 'one man' village offices by its seven subsidiaries at selected rural centres, mainly with a view to mobilising untapped rural deposits. These offices will be subsidised, the mode of subsidy payment being to meet in full, for the first five years, the losses incurred by these branches from the Integration and Development Fund. Upto June 1966, the subsidiaries have opened seven offices under this scheme. Thus during the year July 1965 to June 1966, the State Bank of India and its subsidiaries opened 133 branches under their expansion programmes. The total number of offices of the State Bank of India and its subsidiaries as at the end of June 1966 stood at 1,996. The other scheduled banks (i.e., other than the State Bank of India and its subsidiaries) opened 165 new offices during the year at places which were not formerly served by either a scheduled bank or a non-scheduled bank having paid-up capital and reserves of over Rs. 50,000 and 218 new offices at other centres. In addition, 38 offices were added as a result of amalgamation and/or taking over of offices of non-scheduled banks consequent upon transfer of their liabilities and assets. As against these, nine offices were closed between July 1965 and June 1966. Thus, the total number of offices of scheduled banks increased to 6,122 at the end of June 1966.

88. Three more clearing houses were established during the year, bringing the total number of clearing houses in the country to 84. Of these, 7 are managed by the Reserve Bank, 62 by the State Bank of India, 14 by the subsidiaries of the State Bank of India and one by a commercial bank.

Regulation of Business of Non-Banking Institutions relating to Acceptance of Deposits

89. It was mentioned in the last year's Report that in the light of the position revealed by the analysis of data relating to the deposits of non-banking companies and financial institutions, measures were being formulated for the regulation of the business of acceptance of deposits by these companies. Accordingly, the Reserve Bank, in exercise of the powers conferred on it by Section 45J, 45K and 45L of the Reserve' Bank of India Act, 1934, issued two notifications on Ja-

nuary 7, 1966 giving certain directions to (i) non-banking non-financial companies (except those under certain exempted categories) receiving deposits from the public and (ii) non-banking companies which carry on as their principal business hire-purchase transactions or the financing of such transactions.

90. The directions (i) prohibit the acceptance of short-term deposits by the companies ; receipt or renewal of deposits of less than twelve months in the case of non-financial companies and six months in the case of hire purchase companies is prohibited, (ii) prescribe certain particulars to be specified in any advertisement soliciting deposits, (iii) provide for the furnishing of receipts to depositors and the maintenance of registers of deposits received by them and (iv) require the inclusion of certain information relating to deposits in the reports of the Board of Directors of the companies. In case of hire-purchase companies, two additional requirements were laid down, *viz.* that every such company should *(i)* maintain in India as liquid assets, a sum equivalent to 9 per cent of the assets in India of the said company and *(ii)* also secure that the aggregate of the company's receipts by way of instalments due to it under hire-purchase contracts during each half year (of an accounting year) is not less than 25 per cent of the amount outstanding under such contracts at the close of the previous accounting year.

9 1. The requirement regarding maintaining in India as liquid assets a sum equivalent to 9 per cent of the assets was amended on June 29, 1966, in terms of which, a hire-purchase company is now required to maintain in India as liquid assets a sum which shall not at the close of business on any day be less than 10 per cent of the deposits received by it and outstanding in its books on that day, instead of 9 per cent of its assets in India. Earlier, on April 4, 1966, also, the two notifications issued on January 7, 1966, were amended ; the two important amendments are : *(i)* requiring companies to furnish to the Bank audited balance sheets and interim accounts so long as they hold deposits and *(ii)* modifying the definition of 'deposit' in respect of non-financial companies so as to exclude from its purview any money received from employees otherwise than by way of security as well as money received by a holding company from its subsidiary or by a subsidiary from its holding company or by a company from a holding company of its holding company.

92. The question of providing for more effective control and development of non-banking institutions carrying on banking or para-banking activities in the unorganised sector is under consideration and a new Department, viz. Department of Non-Banking Companies was established by the Bank at Calcutta in March 1966, for administering the provisions of Chapter III B of the Reserve Bank of India Act, 1934.

Miscellaneous

93. In the Report for 1962-63 mention was made of the promulgation by the Government of Pakistan on June 7, 1962, of the Pakistan Banking Companies Ordinance, under which 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 was higher (Section 13(3) of the Ordinance). 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 have caused considerable hardship to Indian banks operating in Pakistan, the matter was taken up with the Government of Pakistan who exempted banks from the operation of that section of the Ordinance for a period of one year in the first instance from December 7, 1962. The exemption period was later extended and it was due to expire in December 1965. Indian banks having offices in Pakistan were, therefore, advised that if they could not meet the requirements of the above provision from out of their resources in Pakistan, they might notify the Pakistan Government accordingly and take consequential action including closing of their offices in that country, if necessary.

94. Following the commencement of hostilities between India and Pakistan, Indian banks in Pakistan were reported to have been directed to suspend their business and their

assets were vested in the Custodian appointed by the Government of Pakistan.

95. During the year, remittance facilities available to the scheduled banks in terms of the Reserve Bank of India Remittance Facilities Scheme were liberalised effective January 1, 1966. The corresponding facilities available to State co-operative banks were also liberalised. The more important features of this liberalisation were : (i) raising of the minimum amount to Rs. 20,000 from Rs. 10,000 previously, between the banks' accounts at the offices of the Reserve Bank free of charge, and (ii) increasing the frequency from three times a week (free of charge, an amount of Rs. 5,000) to four times a week (free of charge, an amount of Rs. 10,000).

III. DEVELOPMENTS IN CO-OPERATIVE BANKING

96. The most important development in the co-operative banking sector during the year was the enactment of the Banking Laws (Application to Co-operative Societies) Act, 1965 (referred to in the last Report), which brought co-operative banks within the purview of the general banking legislation of the country. With the Act coming into force on March 1, 1966, some of the provisions of the Banking Regulation Act, 1949, relating to licensing of banks, maintenance of cash reserves and liquid assets, regulation of advances, issue of directions etc. became applicable to co-operative banks. Also, the voluntary inspections of co-operative banks by the Reserve Bank were replaced by statutory inspections under the Banking Regulation Act.

97. In regard to short-term agricultural credit, increasing emphasis continued to be placed on the crop loan system. Provision of finance under the scheme is to be arranged under a three-component formula consisting of (i) a cash component adequate to meet the needs of cultivation on a traditional plane, (ii) a kind component in the form of inputs such as fertilisers and pesticides and (iii) an additional cash component to meet cost of labour etc. involved in the use of inputs under the kind component subject, however, to the repaying capacity of the borrowers judged on the basis of expected value of produce. It was also felt necessary to strengthen the co-operative credit structure so as to enable central co-operative banks and primary agricultural credit societies to provide finance to farmers cultivating under the 'High Yielding Varieties Programme'. The Reserve Bank, on its part, would relax the usual terms and conditions for such lending. During the year, the policy governing grant of medium-term loans for agricultural purposes was rationalised. According to the revised policy the amount of loan is to be related to the outlay for the purpose for which it is required and the repaying capacity, instead of linking it to the value of the security. Also, in respect of financial accommodation to State co-operative banks for financing production and marketing of handloom weavers' societies, the assistance is to be on the basis of actual production and sales and not on the number of looms and the scale per loom as before. During the year, the National Agricultural Credit (Stabilisation) Fund constituted in 1956, was utilised for the first time to convert short-term dues to Reserve Bank owed by some State co-operative banks in the areas affected by scarcity conditions.

Co-operative credit policy, procedures and operations

98. In the sphere of short-term agricultural credit, emphasis continued to be placed on the crop loan system which has been accepted as a basic feature of the programme of co-operative development. As the progress made in the implementation of the system in most States till the end of 1964-65 was not encouraging, the Government of India convened in 1965-66, State Level Conferences at which the representatives of the Reserve Bank explained the various features of the system. Provision of credit under the system is related to the cost of cultivation of each crop including the value of inputs such as fertilisers, etc. subject to the repaying capacity of the borrower which is judged in relation to the expected value of produce rather than the security which he can offer. The other features of the scheme

include linking of credit with marketing, observance of seasonality in advances and repayments depending upon the timings of sowing and harvesting of crops, etc.

99. The Standing Advisory Committee on Rural and Co-operative Credit at its meeting held on April 28, 1966, discussed the role of co-operative credit in the context of special schemes for agricultural production such as the High Yielding Varieties Programmes. It was agreed that officers of the Reserve Bank would also participate in the tours of Central Teams deputed by the Ministry of Food, Agriculture, Community Development and Co-operation, to various States to ascertain measures needed to strengthen the co-operative credit structure, with the immediate object of enabling the central co-operative banks and the primary credit societies to provide the necessary credit to the farmers cultivating High Yielding Varieties. The Committee also recommended the setting up of a committee to go into the problems of rural credit. The Reserve Bank, on its part, agreed to relax the usual terms and conditions in respect of central co-operative banks for the purpose of financing cultivators participating in the High Yielding Varieties Programme. In particular, the stipulation that borrowings from the Reserve Bank should be matched by non-overdue loans outstanding against primary agricultural credit societies in respect of such financing was relaxed. It was decided to sanction, subject to certain conditions, special credit limits to the concerned central co-operative banks for the High Yielding Varieties Programme, which is to cover 4.89 million acres during 1966-67. The conditions are that (1) the loans out of these limits would not be available to defaulting members of primaries ; (2) every individual would contribute to the share capital of the society an amount equivalent to 10 per cent of his borrowings from it ; (3) loans for inputs like fertilisers would be disbursed only in kind ; (4) the State co-operative bank would repay all the loans taken by it for financing the kharif crops under the programme on or before March 31, 1967, and (5) every member would undertake to sell his produce through the agency approved by the primary agricultural credit societies. Since the programme is to be extended also to persons who are not members of co-operative societies, the Bank suggested that the Government or any other agency approved by the Government should not give non-members credit on more favourable terms and conditions than those on which members of societies would obtain their loans.

100. The option given to 'A' and 'B' class central co-operative banks (referred to in the last year's Report) which had furnished .the guarantee of the State Government for borrowings made on their behalf by the State co-operative banks, to apply for credit limit without such guarantee and on their own good signatures with effect from 1965-66, was also made available to 'A' and 'B' class banks in areas in which the Intensive Agricultural District Programme was in operation. The credit limits sanctioned by the Bank to the State co-operative banks for seasonal agricultural operations and marketing of crops at the concessional interest rate of 2 percent below the Bank rate, increased from Rs. 200 crores in 1964-65 to Rs. 212.66 crores in 1965-66. Drawals aggregated Rs. 260.72 crores during the above period, while repayments were Rs. 267.53 crores; in the result, the outstandings at the end of the year at Rs. 143.73 crores were lower by Rs. 6.81 crores than those at the end of the previous year. In addition, the Bank sanctioned special limits of Rs. 7.52 crores to the State co-operative banks in Madhya Pradesh, Andhra Pradesh, Madras and Mysore to finance the High Yielding Varieties Programme. Short-term loans amounting to Rs. 32.68 crores were also sanctioned to some State co-operative banks for general banking purposes at the Bank rate.

101. The policy governing the issue of medium-term loans for agricultural purposes was rationalised during the year. Instead of linking the amount of loan to the value of security, it is now to be related to the outlay for the purpose for which it is required and the balance of the repaying capacity as available after making due allowance for requirements of short-term credit. The medium-term credit limits sanctioned by the Bank during the year 1965-66 for 'approved agricultural purposes amounted to Rs. 14.06 crores as against Rs. 14.39 crores sanctioned in the previous year. The drawals on these limits amounted to Rs. 7.45 crores and cons-

tituted about 53 per cent of the loans sanctioned; repayments aggregated Rs. 6.78 crores. The amount outstanding against the State co-operative banks as on June 30, 1966 was Rs. 14.96 crores.

102. Financial accommodation to State co-operative banks on behalf of central banks under Section 17(2) (bb) for financing the production and marketing of handloom weavers' societies was being provided at rates ranging between Rs. 300 to Rs. 500 per loom. The basis for sanctioning the limits was shifted during the year from the number of looms and the scale per loom to the actual production and sales during the year. As this production oriented system of financing might reduce the quantum of credit which some societies had been enjoying, it was decided to allow the banks and societies a period of one year to bring about the necessary adjustments. The credit limits sanctioned for financing the production and marketing activities of handloom weavers' co-operative societies for the financial year 1965-66, at the concessional interest rate of 1½ per cent below the Bank rate under Section 17(2) (bb) or (4))(c) of the Reserve Bank of India Act totalled Rs. 6.73 crores compared to Rs. 5.90 crores for financial year 1964-65. The drawals on these limits aggregated Rs. 5.65 crores and the outstandings at the end of the year amounted to Rs. 5.57 crores. The Bank sanctioned limits aggregating Rs. 1 .OO crore at the Bank rate under Section 17(2)(a) or (4)(c) of the Act for financing commercial or trade transactions of the apex handloom weavers' societies.

103. In view of the scarcity conditions prevailing in the various parts of the country, the National Agricultural Credit (Stabilization) Fund constituted in 1956 under Section 46B(2) of the Reserve Bank of India Act, was utilised for the first time during the year, to convert the short term dues to the Reserve Bank from the central co-operative banks in areas affected by these conditions. During the year a sum of Rs. 4.82 crores was sanctioned to five State co-operative banks on behalf of 63 central co-operative banks against which they drew a sum of Rs. 4.68 crores. A reference was made in the last year's Report to the scheme for the building up of the agricultural credit stabilization funds at various levels of the co-operative credit structure by contributing to it at least 25 per cent of the net annual profits every year, of each central and apex co-operative bank. However, as it was felt that the co-operative banks would not be able to contribute on such a high scale, the minimum contribution was reduced, in consultation with the Standing Advisory Committee, to 15 per cent of net profit. A recommendation was also made to the State Governments that they might make outright contributions aggregating Rs. 20.48 crores to the stabilization funds of the State co-operative banks with suitable assistance from the Government of India. The Ministry of Finance has since approved a contribution of Rs. 4.4 crores to 6 States in 1965-66.

104. Loans sanctioned to State Governments at a concessional rate of interest out of the National Agricultural Credit (Long-Term Operations) Fund, to enable them to contribute to the share capital of co-operative credit institutions amounted to Rs. 2.68 crores. The Governments drew a sum of Rs. 2.58 crores against this and the outstandings at the end of the financial year 1965-66 stood at Rs. 29.42 crores. The State Governments were advised of the manner in which the requirement of Government capital by co-operative credit institutions should be assessed.

105. Last year the Bank had made known to State Governments that due to stringent conditions in the money market and various other developments, it would not be possible for the 3 public sector institutions, viz., the Life Insurance Corporation, the State Bank of India and the Reserve Bank of India to support a debenture programme of central land mortgage banks in excess of Rs. 23 crores in the financial year 1965-66. The amount that would qualify for the assumed support as above for each land mortgage bank was also indicated, keeping in view the needs of balanced development as between the relatively well established banks and the more recently organised ones, the extent of the uncovered mortgages as on March 31, 1965, and the need to clear off the outstandings under the overdrafts from the State Bank of India, etc. However, the programme approved was found to be inadequate to fulfil the large loaning programmes of the land mortgage banks. As the Life Insurance Cor-

poration and the State Bank of India agreed to raise their contribution, the programme was increased to Rs. 35 crores (excluding the amount of Rs. 4 crores which the Government of Maharashtra had agreed to contribute to the debentures of the State land mortgage bank). The support of the Life Insurance Corporation and the State Bank of India continued to be 30 per cent and 10 per cent of the floatation by each bank. The support of the Reserve Bank was reduced from September 1965, from 20 per cent to 10 per cent of the floatation or the shortfall in public subscription, whichever was lower.

106. At a meeting of the representatives of the land mortgage banks, the Life Insurance Corporation, the State Bank of India and the Government of India convened by the Reserve Bank in February 1966, the debenture programmes of the banks during the financial year 1966-67 were discussed. The amount to be floated with the support of the three public sector institutions during 1966-67 was fixed at Rs. 35.75 crores. The land mortgage banks in the country were grouped into three categories on the basis of their stage of development and the support extended by the three public sector institutions was fixed at 50 per cent, 55 per cent and 60 per cent of each series, respectively. The amount to be floated by the banks and the extent of support from the public sector institutions were indicated to the banks. It was also made clear that the banks could float debentures exceeding the above limits, provided they raised the additional amounts without support from the three public sector institutions.

107. During the year ending March 1966, fourteen central land mortgage banks issued ordinary debentures for a total of Rs. 40.93 crores, of which Rs. 4.60 crores or 11.24 per cent were taken up by the Bank, while co-operative institutions, the National Co-operative Development Corporation, the State Bank of India and the Life Insurance Corporation of India subscribed Rs. 26.87 crores. The Bank's support to the rural debentures issued by the central land mortgage banks continued to be linked to the response from the public in the proportion of 8 : 7. Rural debentures for Rs. 3.18 crores were floated by the central land mortgage banks in Gujarat, Maharashtra, Andhra Pradesh, Madras and the Punjab. The response from the public, however, was poor and the banks could collect only Rs. 2.40 crores, of which Rs. 1.28 crores were subscribed by the Reserve Bank. During the year the Andhra Pradesh and Madras Central Land Mortgage Banks issued special development debentures for amounts aggregating Rs. 4.91 crores of which Rs. 4.30 crores were contributed by the Agricultural Refinance Corporation and the balance by the State Governments. Special development debentures were also floated for Rs. 1.45 lakhs by the Kerala Land Mortgage Bank for the cultivation of rubber under the scheme approved by the Reserve Bank. The Bank's holdings in rural and special development debentures rose from Rs. 4.75 crores at the end 'of June 1965 to Rs. 5.48 crores by the end of June 1966.

108. The question of investment of the surplus funds of the central and State co-operative banks vis-a-vis their indebtedness to the higher financing agencies including the Reserve Bank of India and the requirements of Sections 18 and 24 of the Banking Regulation Act was examined and the following principles were conveyed for the guidance of Registrars who are often approached by the banks for permission to invest surplus funds with commercial banks : (a) Central co-operative banks might maintain excess liquidity upto 20 per cent of the minimum fluid cover prescribed under the standards of liquidity or upto 1 per cent of the working capital whichever was more and the funds in excess of this level should be utilized by the central banks in reducing their borowings from the State co-operative banks and (b) within the optimum liquidity indicated above, the central banks should give preference to the State co-operative bank and also to the State Bank of India and its subsidiaries in the matter of investment of funds. These principles would govern the investment of surplus funds of the State, co-operative banks also. The observance of the conditions stipulated is being watched through monthly returns from the co-operative banks.

109. The voluntary inspections of co-operative banks by the Reserve Bank were

replaced with effect from March 1, 1966, by statutory inspections under Section 35 of the Banking Regulation Act, 1949 (as applicable to co-operative societies). Till that date 19 State co-operative banks and 215 central co-operative banks had been inspected under the voluntary inspection scheme. Thereafter statutory inspections of one State co-operative bank, 87 central co-operative banks and 30 primary co-operative banks were taken up under Section 35 of the above Act. Of the 30 primary co-operative banks, 4 were inspected by the officers of the State co-operative banks as permitted by Section 35(1) of the Banking Regulation Act and the rest by officers of the Reserve Bank. Inspection of central land mortgage banks and apex handloom weavers' co-operative societies continues to be on a voluntary basis as they do not come under the purview of the said Act. During the year, 12 central land mortgage banks and 3 apex handloom weavers' societies had been inspected.

Co-operative Development Policy

110. A reference has been made earlier to the enactment of the Banking Laws (Application to Co-operative Societies) Act, 1965 which extended the Reserve Bank of India's statutory control to co-operative banks also. The Act came into force on March 1, 1966. The co-operative banks covered under this legislation include State co-operative banks, central co-operative banks and primary co-operative banks. Such co-operative banks like industrial co-operative banks, if they are declared to be State or central co-operative banks by the concerned State Governments in terms of Section 2(f) or 2(bi) of the Reserve Bank of India Act, also come within the purview of the new legislation. Land mortgage banks, all primary agricultural credit societies and those primary non-agricultural credit societies having paid-up capital and **reserves** of less than rupees one lakh are excluded from the purview of this legislation. The main provisions of the Act are:

(i) All co-operative banks to which the Act applies, were required to apply for a licence to the Reserve Bank within three months of the commencement of the Act ; a primary credit society becoming a primary co-operative bank after the commencement of the Act has also to apply for a licence within three months from the date on which it becomes a primary co-operative bank. Such banks are permitted to carry on banking business until they are granted a licence or are informed that a licence cannot be granted to them.

(ii) Every co-operative bank except a scheduled State co-operative bank has to maintain either with itself or with a higher financing agency, a cash reserve of not less than 3 per cent of its total demand and time liabilities.

(iii) Every co-operative bank is required to maintain liquid assets, including the minimum cash reserve of 3 per cent, of not less than 20 per cent of its total demand and time liabilities. This requirement will be raised to 28 per cent after a period of 2 to 3 years.

(iv) The co-operative banks, with the exception of central co-operative banks, are required to obtain the permission of the Reserve Bank for opening branches. The broad policy laid down in this regard is that the State co-operative banks will be allowed to open branches only at the headquarters of the State. This restriction will, however, not apply to the State co-operative banks in Union Territories as they also operate as central co-operative banks in these areas. In the case of a primary co-operative bank, the opening of a branch within the area of its operation will be considered on the basis of the availability of the banking facilities in and the deposit potential of the area, taking into account the special needs of the different types of primary co-operative banks such as urban co-operative banks, salary earners' societies, etc.

(v) the Act prohibits co-operative banks from combining trading with banking, holding of non-banking assets and creation of floating charges on assets and requires them to obtain Reserve Bank's approval for investment in shares of co-operative concerns lying outside their area of operation.

111. The Act also made some amendments to the Reserve Bank of India Act which enabled the Bank to include State co-operative

banks in its second schedule. Each scheduled State co-operative bank will have to maintain with the Reserve Bank a minimum average daily balance of 3 per-cent of its total demand and time liabilities as against the requirement of **2½** per cent of demand liabilities and 1 per cent of time liabilities in the case of banks which are not scheduled but are taking advantage of the Bank's remittance facilities.

112. The provisions of the Banking Regulation Act, which confer on the Reserve Bank the powers to supersede, wind up, amalgamate or reconstruct banks, are not applicable to co-operative banks. These powers continue to vest in Registrars of Co-operative Societies. If, however, co-operative banks are to be brought within the purview of the Deposit Insurance Corporation Act, some of these powers will have to be vested in the Reserve Bank. A number of States have, therefore, agreed to amend their Co-operative Societies Acts so as to vest in the Reserve Bank the necessary powers. The Government of India is considering an amendment to the Deposit Insurance Corporation Act, so as to extend it to co-operative banks also.

113. The Bank's Standing Advisory Committee on Rural and Co-operative Credit met three times during the year and considered, ***inter alia***, the problems of co-operative credit in the context of special schemes for agricultural production, the establishment of agricultural credit stabilisation funds at various levels of the co-operative credit structure, the provision of medium-term loans for the purchase of milch cattle through milk supply societies, etc. An important recommendation of the Committee was that as a transitional arrangement, the milk supply societies can be recognised, as the agency through which finance can flow in an area in which a co-operatively organised dairy development project was in effective operation provided (i) the existing co-operative structure was weak or was not in a position to take up this activity and ***(ii)*** the milk supply society was a viable unit and there was co-operative cohesion among its members. The Committee also felt that the Reserve Bank could not give substantial finance from the Long-Term Operations Fund for the purchase of milch cattle.

114. While the work on the Fourth Five Year Plan on Co-operative Development was in progress, the plans for the year 1566-67 were finalised by the Planning Commission in consultation with the representatives of the State Governments, the concerned Departments of the Government of India, the Reserve Bank and the State Bank of India in November 1965. In regard to the co-operative credit structure, the emphasis was particularly on the revitalisation of primary agricultural credit societies so as to make them viable on the lines of the recommendations of the Conference of State Ministers for Co-operation held at Hyderabad in June 1964. A total financial outlay of Rs. 12.65 crores has been approved by the Planning Commission for co-operative development during 1966-67.

115. The Deputy Governor in charge of Rural Credit held discussions, as in the previous years, with the official and non-official representatives of the co-operative movement in the various States during January-May 1966 on the outstanding issues relating to co-operative development in the States.

Agricultural Refinance Corporation

116. The activities of the Agricultural Refinance Corporation showed improvement during the year under review. The Corporation sanctioned 24 schemes during the year as against 9 schemes in 1964-65 and 3 schemes in 1963-64. The schemes relate to land reclamation and soil conservation, development of plantation crops such as rubber, tea, coffee, coconut, arecanut and also to poultry farming. The States to be benefited by these schemes are Andhra Pradesh, Assam, Delhi, Gujarat, Kerala, Madras, Maharashtra, Mysore, Rajasthan and West Bengal. The total financial outlay involved in these 24 schemes is Rs. 17.96 crores and the Corporation's commitment amounted to Rs. 14.17 crores or 79 per cent. Of the 24 schemes, 10 schemes are to be financed by central land mortgage banks; the refinance amounting to Rs. 12.48 crores is to be provided in the form of subscription to the special development debentures to be floated for the purpose. The remaining 14 schemes involving refinance to the extent of Rs. 1.69 crores are to be financed by scheduled banks.

117. Thus, during its three years of working the Corporation sanctioned 36 schemes in all involving a total financial outlay of Rs. 34.73 crores and the Corporation's commitment in respect of these schemes is Rs. 28.57 crores. In addition to the schemes actually sanctioned, several schemes including development of fisheries, cardamom, mangoes, grapes, etc. are under the consideration of the Corporation.

118. During the year under review the Corporation disbursed a sum of Rs. 4.45 crores, of which Rs. 4.30 crores were in the form of contribution to the special development debentures floated by the land mortgage banks under the schemes for the reclamation and development of land and the balance of Rs. 14.70 lakhs was to scheduled banks under schemes for development of tea and coffee plantations. The disbursements when viewed in relation to commitments are small but this could be attributed to the fact that the schemes are to be implemented over a number of years and drawals from the Corporation are also to be made accordingly.

119. In order to help the small tea planters the Corporation, in association with the Agricultural Credit Department of the Reserve Bank of India, made a study of the problems facing small tea planters in North and South India and published the results in August 1965. On the basis of this study, the Corporation felt that the small planters could be helped through the agency of the land mortgage banks and for this purpose made certain suggestions to the concerned State Governments, such as raising of ceilings on long-term and short-term loans to planters, giving of subsidies to uneconomic plantations, proper arrangements for supervision and technical advice and co-operative processing. These suggestions are now under the consideration of the Punjab and Madras Governments.

IV. EDUCATION AND TRAINING

120. Over the years the Reserve Bank of India has been taking an active part in the improvement of the quality and standards of the banking personnel. It has been sponsoring, organising and conducting appropriate training courses for different categories of personnel in commercial and co-operative banks, as well as for its own staff. During 1965-66 a new course for the managerial personnel of co-operative banks was added to the list of training courses following the enactment of the Banking Laws (Application to Co-operative Societies) Act, 1965. This course is intended to equip the managerial personnel of co-operative banks with upto-date knowledge of practices and procedures of modern banking. Two such courses were conducted during the year at the Bankers' Training College, Bombay, and 56 officers of co-operative banks participated in them.

121. The Bankers' Training College, Bombay, continued to conduct courses for the supervisory personnel of commercial banks. The College held during the year ten courses—three senior and four intermediate courses in banking, and one course each in foreign exchange, industrial finance and personnel and organisation. 339 officers of commercial and co-operative banks, State Financial Corporations, etc. attended these courses.

122. For its own staff, the Reserve Bank has been running since August 1963, a Staff Training College at Madras where training is imparted to junior supervisory staff. During the year, the College conducted five general courses each of eight weeks' duration for improving the operational efficiency of the staff. The number of employees who received training in these courses was 221. The College has also been conducting inspection-oriented course for the staff of the Department of Banking Operations and Development and Agricultural Credit Department. During the year, four such courses each of ten weeks' duration were held, in which 96 employees received training.

123. The officers of State co-operative banks are being given training in inspection techniques and procedures as, by virtue of Section 35 of the Banking Regulation Act, the Reserve Bank can arrange for an inspection of a primary co-operative bank through one or more officers of the State co-operative bank

in the State in which the primary co-operative bank carries on business. Two Special Courses for the key personnel of the apex/ central co-operative banks were organised at the Bankers' Training College at Bombay during the year and 56 officers of apex and central co-operative banks were trained. In addition, training facilities are provided by the Agricultural Credit Department of the Bank to the Registrars of Co-operative Societies and other senior officers of the Co-operative Departments of different State Governments.

124. During the year, three induction courses of five weeks' duration were held for employees selected for the posts of junior officers Grade II. The number of officers who participated in these courses was 103. A new eight week induction course for rural credit officers selected from members of the staff of the Bank was started on June 13, 1966, with 43 employees participating.

125. In addition&he clerical staff of the Bank (Clerks Grade I and II) receive training courses at the zonal training centres at Bombay, Calcutta, Madras, New Delhi and Nagpur. So far 383 employees in the category Grade I and 1,536 belonging to Grade II received training. In addition 566 new entrants participated in these courses.

126. Till recently, the courses conducted in the training establishment of the Reserve Bank covered only the junior supervisory and clerical staff. During 1965-66, seminars on management were arranged for the officers of the Bank in Calcutta and Bombay. Two specialists of the Indian Institute of Management, Calcutta, and some 60 officers of the Bank participated in these seminars.

127. Mention was made in last year's Report of classes held at Bombay to provide facilities to the staff for learning Hindi. Arrangements were made during the yeas to start such classes for the staff at Byculla (Bombay), Hyderabad, Madras and Trivandrum offices.

V. ACCOUNTS AND OTHER MATTERS

128. During the accounting year ended June 30, 1966, the Bank's income after making statutory and other provisions, amounted to Rs. 67.53 crores as against Rs. 62.27 crores in the previous year. The expenditure which included establishment expenses and provision for sundry liabilities and contingencies, amounted to Rs. 17.53 crores as against Rs. 14.27 crores last year. The net profit available for payment to Central Government was Rs. 50 crores as against Rs. 48 crores paid last year.

129. The contributions to the National Agricultural Credit (Long-Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund this year were higher at Rs. 15 crores and Rs. 6 crores, respectively, than in the previous year (Rs. 14 crores and Rs. 1 crore, respectively). The contribution to the National Industrial Credit (Long-Term Operations) Fund was Rs. 5 crores, the same as in the previous year.

130. The rise of Rs. 5.26 crores in income this year was mainly due to increased earnings by way of interest on rupee securities and on Loans and Advances and also discount on Treasury Bills. The rise of Rs. 3.26 crores in expenditure was mainly under the heads 'Establishment', 'Security Printing' and 'Agency Charges'. The increase under 'Establishment' was due to revision of pay scales of Officer and Supervisory staff in October 1965, payment of dearness allowance at enhanced rates to 'Award Staff' owing to the rise in index figures and increments granted to the staff in the time scales of pay. The increase under 'Security Printing' was due to a rise in the manufacturing cost of Bank Note Forms and increase in the indents for their supply, while that under 'Agency Charges' was due to increased commission paid to the State Bank of India and its subsidiaries on account of larger turnover of Government transactions.

Auditors

131. The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Com-

pany of Bombay, Messrs. P. K. Ghosh & Company of Calcutta and Messrs. Brahmayya & Company of Madras who were appointed by the Government of India as auditors of the Reserve Bank of India for the year 1965-66 by notification No. F 3(46)-BC/65 dated October 22, 1965, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

The Central Board

132. Shri C. S. Divekar relinquished charge of the office of Deputy Governor from the close of business on November 11, 1965, on the expiry of his term of appointment. The Board wishes to place on record its high appreciation of the valuable services rendered by Shri Divekar.

133. Prof. C. N. Vakil and Shri N. A. Palkhivala retired as Directors from the Central Board of the Bank on the expiry of their terms of office on January, 23, 1966 and January 14, 1966, respectively, but both were re-nominated by the Government of India as Directors of the Central Board in terms of Section 8 (1) (c) of the Reserve Bank of India Act, 1934.

134. On the expiry of his term of appointment Shri D. R. Joshi relinquished office as Executive Director with effect from the close of business on May 31, 1966. Sarvashri N. D. Nangia and R. K. Seshadri have been appointed as Executive Directors with effect from May 26 and June 1, 1966, respectively.

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

Local Boards

136. Shri E. B. V. Raghavaiah resigned his membership of the Southern Area Local Board with effect from March 1, 1966, and the vacancy was filled by the nomination of Shri M. Sudarsanam in terms of Section 12(3) of the Reserve Bank of India Act.

Opening and Closing of Offices and Changes in the Organisation and Management

137. The regional office of the Agricultural Credit Department and the Public Debt Office at Lucknow were closed and instead were opened at Kanpur in June 1966. On transfer of the Public Debt Office from Lucknow to Kanpur, it was converted into a full-fledged Public Debt Office, i.e. it will act as a parent Public Debt Office in respect of all U.P. Government loans and as a local Public Debt Office in respect of all decentralised Central Government loans and other State Government loans.

138. The Central Government work at Kanpur hitherto attended to by the local State Bank of India was taken over by the Kanpur Office effective April 1, 1966.

139. With a view to providing more effective control over non-banking institutions carrying on banking or para-banking activities in the unorganised sector and also to assist in their development the Bank set up at Calcutta in March 1966, a new Department called Department of Non-Banking Companies.

Bank's Premises

140. The Bank's new office building at Calcutta was completed in November 1965, and the office started functioning in the new premises from that month. The Kanpur office was shifted to the new building on completion of the first phase of construction in February 1966. The work on the remaining portion of this building is in progress. The construction of the new office building at Patna is also in progress. The proposed office buildings at Bombay (Backbay Reclamation), Chandigarh, Bhubaneswar, Bangalore, Hyderabad and Trivandrum and the proposed sub-office buildings at Poona, Gorakhpur and Tiruchirapalli are in the planning stage. Land has been secured for the proposed office buildings at Gauhati and Bhopal and for the sub-office buildings at Ajmer.

141. All the buildings in the Staff Colony at Santa Cruz, Bombay, were completed during the year and occupied. Construction of quarters at Singhi Park, Calcutta, is in pro-

gress and is expected to be completed by the end of 1966. Construction of the Officers' Quarters at Calcutta and Bombay is also in progress, while construction of staff quarters at Patna has recently commenced.

Employer-Employee relations

142. The Award of the National Industrial Tribunal (Bank Disputes) relating to the scales of pay and allowances and other service conditions of the workmen staff of the Reserve Bank of India expired on October 29, 1965. Bipartite discussions between the representatives of the employees' unions and the management of the Reserve Bank of India for considering the demands made by workmen employees for improvement in their wages and other conditions of service, are in progress.

RESERVE BANK OF INDIA

BALANCE SHEET AS AT JUNE 30, 1966

ISSUE DEPARTMENT

LIABILITIES	Rs. P.	Rs. P.	ASSETS	Rs. P.	Rs. P.
Notes held in the Banking Department . . .	39,70,61,399·00		Gold Coin and Bullion :-		
			(a) Held in India	115,89,24,794·75	
			(6) Held outside India . .	. . . .	
Notes in circulation . .	2867,48,14,694·00		Foreign Securities . .	221,42,01,425·65	
Total Notes issued		2907,18,76,093·0	Total . .		337,31,26,220·40
			Rupee Coin . .		84,95,91,175·75
			Government of India Rupee Securities . .		2484,91,58,696·85
			Internal Bills of Exchang and other Commercial Paper . .		. . .
Total Liabilities		2907,18,76,093·00	Total Assets . .		2907,18,76,093·00

BANKING DEPARTMENT

LIABILITIES	Rs. P.	ASSETS	Rs. P.
Capital Paid-up	5,00,00,000·0	Notes	39,70,61,399·00
Reserve Fund	80,00,00,000·0	Rupee Coin	61,805·00
National Agricultural Credit (Long Term Operations) Fund .	115,00,00,000·0	Small Coin	2,35,127·10
National Agricultural Credit' (Stabilisation) Fund . . .	16,00,00,000·0	Bills Purchased and Discounted :-	
National Industrial Credit (Long Term Operations) Fund . .	20,00,00,000·0	(a) Internal . . . . . . , .	. . . .
Deposits :-		(b) External	. . .
(a) Government		(c) Government Treasury Bills . .	106,11,94,891·49
(i) Central Government	50,26,46,299·4	Balances held Abroad@ . . , .	26,99,67,868·71
(ii) State Governments	22,51,13,489·7	Investments@@	431,23,17,770·68
(6) Banks		Loans and Advances to :—	
(i) Scheduled Banks . .	134,14,21,009·4	(i) Central Government	. . . .
(ii) State Co-operative Banks	14,23,78,111·3	(ii) State GovernmentsŒ . .	20,68,00,000·00
(iii) Other Banks . .	13,42,667·7	Loans and Advances to :-	
(c) Others	333,25,07,422·5	(i) Scheduled Banks†	39,20,000·00
Bills Payable	34,18,42,509·4	(ii) State Co-operative Banks‡	148,90,01,803·00
Other Liabilities	48,39,42,751·0	(iii) Others	1,90,64,500·00
		Loans, Advances and Investments from National Agricultural Credit (Long-Term Operations) Fund . .	
		(a) Loans and Advances to :-	
		(i) State Governments . .	29,40,73,192·85
		(ii) State Co-operative Banks . .	14,95,86,086·01
		(iii) Central Land Mortgage Banks	. . . .
		(b) Investment in Central Land Mortgage Bank Debentures . .	5,83,76,630·00
		Loans. & Advances from National Agricultural Credit (Stabilisation) Fund	
		Loans and Advances to State Co-operative Banks	4,68,31,344·00
		Loans, Advances and Investments from National Industrial Credit (Long-Term Operations) Fund . .	
		(a) Loans and Advances to the Development Bank	3,84,17,260·00
		(b) Investment in bonds/debentures issued by the Development Bank	. . . .
		Other Assets	38,42,84,583·00
Total Liabilities .	873,11,94,260·8	Total Assets	873,11,94,260·84

Contingent liability on partly paid shares Rs. 10,50,001·05. (Sterling Investments of £50,000/- converted @ Rs. 100 = £4·7619).

A Includes Cash and Short-term Securities. @@ (i) Excluding Investments from the National Agricultural Credit (Long-Term Operations) Fund and the National Industrial Credit (Long-Term Operations) Fund. (ii) Includes £50,000 and U.S. $978,750 held abroad. Œ Excluding Loans and Advances from the National Agricultural Credit (Long-Term Operations) Fund. † Includes Rs. *Nil* 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.

K. C. MITTRA,
Chief Accountant.
Dated, the 21st July 1966.

P. C. BHATTACHARYYA, Governor.
M. R. BHIDE, *Deputy Governor.*
B. K. MADAN, *Deputy Governor.*
B. N. ADARKAR, *Deputy Governor.*

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED		
	June 30, 1966	June 30, 1965	June 30, 1964
	Rs. P.	Rs. P.	Rs. P.
INCOME			
Interest, Discount, Exchange, Commission, etc.†	67,52,54,502·47	62,26,61,523·98	52,22,24,259·20
EXPENDITURE			
Establishment	8,94,25,875·37	7,51,04,498·81	6,41,15,966·48
Directors' & Local' 'Board' Members' 'Fees & Expenses	71,490·87	63,596·75	51,779·58
Auditors' Fees	30,000·00	30,000·00	30,000·00
Rent, Taxes, Insurance, Lighting, etc.	40,45,684·58	36,03,995·68	30,04,208·01
Law Charges	48,332·67	18,967·99	23,106·53
Postage and Telegraph Charges	7,76,425·43	5,38,765·95	4,64,130·34
Remittance of Treasure	44,61,098·57	41,41,836·27	43,01,677·74
Stationery, etc.	20,27,981·10	14,04,875·10	13,02,036·15
Security Printing (Cheque, Note Forms, etc.) ..	3,94,18,299·90	2,48,34,512·20	1,92,64,230·28
Depreciation and Repairs to Bank Property ..	49,01,584·56	47,86,406·15	46,03,617·86
Agency Charges	2,60,72,804·94	2,45,19,273·05	2,20,25,581·33
Contributions to Staff and Superannuation Funds'	7,32,000·00	7,32,000·00	7,32,000·00
Miscellaneous Expenses	32,42,547·34	28,82,031·00	23,05,411·27
Net available balance	50,00,00,377·14	48,00,00,765·03	40,00,00,513·63
Total	**67,52,54,502·47**	**62,26,61,523·98**	**52,22,24,259·20**
Surplus payable to the Central Government ..	50,00,00,377·14	48,00,00,765·03	40,00,00,513·63

RESERVE FUND ACCOUNT

	Rs. P.
By Balance on 30th June, 1966	80,00,00,000·00
By transfer from Profit and Loss Account	*Nil.*
Total	**80,00,00,000·00**

† After making usual or necessary provisions in terms of Section 47 of the Reserve Bank of India Act.

K. C. MITTRA,
Chief Accountant.

P. C. BHATTACHARYYA, *Governor.*
M. R. BHIDE, *Deputy Governor.*
B. K. MADAN, *Deputy Governor.*
B. N. ADARKAR, *Deputy Governor.*

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1966.

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.,
BRAHMAYYA & CO.,
Auditors.

Dated, the 21st July 1966.