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**STATE BANK OF PAKISTAN**

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**REPORT**

OF THE

**SIXTH ANNUAL GENERAL MEETING**

OF

**SHAREHOLDERS**

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## CENTRAL BOARD OF DIRECTORS.

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Governor: Abdul Qadir, Esq.

Deputy Governor: Sher Jang Khan, Esq.

Directors Nominated under Clause 9 (i) of State Bank of Pakistan Order. M.A. Mozaffar, Esq., Joint Secretary to the Government of Pakistan, Ministry of Finance, Karachi.

Sir Syed Maratib Ali Shah, Lahore.

Mohd. Ali Khan, Esq., Mardan.

Kassim Husein Kassam Dada, Esqr., Karachi.

Muhammad Ismail, Esqr., Chittagong, East Bengal.

Jnanendra Nath Dutta, Esqr., Mymensingh, East Bengal.

Directors Elected under Clause 9 (i) of State Bank of Pakistan Order.

Karachi Register.

Hatim A. Alavi, Esqr.

Lahore Register.

K. B. Malik Noor Muhammad Khan.

Dacca Register.

Bahauddin Ahmad, Esqr.





## MEMBERS OF LOCAL BOARDS.

### Karachi Area.

#### *Nominated Members:*

Haji Wajihuddin (President)  
Kassim Husein Kassam Dada, Esqr.  
Ahmad Dawood, Esqr.  
Vacant.  
Vacant.

#### *Elected Members:*

Fidahusain A. Lotia, Esqr. (Vice-President)  
Akberali M. Essaji, Esqr.  
T. Motandas, Esqr.  
Mrs. Ashraf Burney.

### Lahore Area.

#### *Nominated Members:*

Sheikh Zahur Ahmed, Esqr. (President)  
Qureshi Ahmad Ali Sadiq.  
Chaudhry Abdul Karim.  
Sir Syed Maratib Ali Shah.  
Khan Sher Afzal Khan.

#### *Elected Members.*

Muhammad Qamar-uz-Zaman Khan (Vice-President).  
Dr. Muhammad Sharif Muttaqi.  
Khawaja Khurshid Ali, Esqr.  
Major Ghulam Hasan Khan.

(ii)

## Dacca Area

### *Nominated Members:*

Bahauddin Ahmad, Esqr.

Abdul Latif Choudhury, Esqr.

Abdur Rahim, Esqr.

A. Jalil, Esqr.

Babu Upendra Nath Mallick.

### *Elected Members:*

Quazi Ashraff Hossain (President)

Lt. Col. Dr. Muhammad Nural Ameen (Vice-President).

Mohiuddin Ahmed Khan, Esqr.

A. M. Sayem, Esqr.

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## OFFICES OF THE BANK

1. Karachi ... (Issue and Banking Departments).
2. Lahore ... (Issue and Banking Departments).
3. Peshawar ... (Issue and Banking Departments).
4. Quetta ... (Banking Department only).
5. Dacca ... (Issue and Banking Departments).
6. Chittagong ... (Banking Department only).
7. Khulna ... (Banking Department only).

# REPORT OF THE CENTRAL BOARD OF DIRECTORS OF THE STATE BANK OF PAKISTAN

*For the year 1st July, 1953 to 30th June, 1954.*

In accordance with the provisions of sub-clause (2) of clause 11 of the State Bank of Pakistan Order, 1948, the Central Board of Directors presents to the shareholders this Annual Report and Accounts of the Bank for the sixth year ended 30th June, 1954.

	Rs.	As.	Ps.
2. Gross earnings of the Annual Accounts. Bank for the year 1st July, 1953 to 30th June, 1954 were ...	3,34,90,534-	13-	1
Total expenditure covering administrative charges, con- tingencies and other sundry expenses was ... ..	1,25,17,810-	4-	7
Net Profit ... ..	2,09,72,724-	8-	6
Amount payable to share- holders as dividend at the rate of 4% per annum under clause 31 of State Bank of Pakistan Order 1948 will be ...	12,00,000-	0-	0
Leaving a surplus payable to the Government under the above clause ... ..	1,97,72,724-	8-	6

The net profit has recorded an increase of Rs. 14.62 lacs over the previous year due to the gross earnings being higher by Rs. 9.43 lacs and the total

expenditure being lower by Rs. 5.19 lacs. The increase in income is mainly under the heads 'Interest' on account of increase in our holdings of Government Securities and in loans and advances to the Provincial Governments and 'Discount' as a result of increased holdings of Sterling Treasury Bills and higher return on India Rupee Treasury Bills. The decrease in the total expenditure is accounted for by a fall under the heads 'Remittance of Treasure', 'Stationery' and 'Security Printing', partly offset by increase under 'Establishment' which is due mainly to the opening of a branch of the Bank at Khulna, the setting up of an Issue Department at Lahore office and the expansion of the activities of other offices and branches of the Bank.

3. The accounts of the Bank have been audited by Messrs A. F. Ferguson & Co. of Karachi, Messrs Price Waterhouse Peat & Co. of Dacca and Messrs Rahim Jan & Co. of Lahore who were elected auditors of the Bank in accordance with sub-clause (1) of clause 32 of the State Bank of Pakistan Order 1948 by the shareholders at their meeting held at Lahore on the 29th September 1953. Being eligible, the present auditors offer themselves for re-appointment.

4. On his appointment as Chairman of the Planning Board, Mr. Zahid Husain, Governor, made over charge to Mr. Abdul Qadir on the 20th July, 1953.

The Central Board of Directors consisted of the following Directors at the beginning of the year :—

- |  |   |
|--|---|
| 1. Mr. Mumtaz Hasan—Government Director. |   |
| 2. Sir Syed Maratib Ali Shah.            | } Nominated by Central Government under clause 9 (1) of State Bank of Pakistan Order, 1948. |
| 3. Sir Abdul Hamid.                      |   |
| 4. Mr. Muhammad Ismail.                  |   |
| 5. Mr. J. N. Dutta.                      |   |
| 6. Mr. Kassim Dada.                      |   |



- |  |   |
|--|---|
| 7. Mr. Hatim A. Alavi<br>—Karachi Area.            | } Elected under clause<br>9(1) of State Bank<br>of Pakistan Order,<br>1948. |
| 8. K. B. Malik Noor<br>Mohd. Khan—<br>Lahore Area. |   |
| 9. Mr. Bahauddin<br>Ahmad—Dacca<br>Area.           |   |

Mr. Mumtaz Hasan continued as Government Director until 8th July, 1953 on which date Mr. Anwar Ali was nominated in his place. The term of the nominated Directors expired on the 8th June, 1954, and in pursuance of clause 9 (1) of State Bank of Pakistan Order, 1948 the Central Government nominated the following in their place :—

1. Sir Syed Maratib Ali Shah, Lahore.
2. Mr. Mohd. Ali Khan, Mardan.
3. Mr. Kassim Dada, Karachi.
4. Mr. Muhammad Ismail, Chittagong.
5. Mr. J. N. Dutta, Mymensingh.

5. The Executive Committee consisted of the following members:—

Constitution of  
the Executive  
Committee.

1. Mr. Anwar Ali—Government Member.
2. Mr. Hatim A. Alavi—Karachi area.
3. Sir Abdul Hamid—Lahore area.
4. Mr. Muhammad Ismail—Dacca area.

In June 1954 Sir Syed Maratib Ali Shah was elected as a Member in place of Sir Abdul Hamid.

6. During the period under report, 14 meetings of the Central Board were held. Of these 11 were held at Karachi and one each at Lahore, Dacca and Khulna. The Executive Committee met 19 times during the year, 15 times at Karachi, twice at Lahore and once each at Chittagong and Murree.

Meetings of the  
Central Board  
and its Executive  
Committee.

7. Mr. Muhammad Yakub, a nominated member on the Local Board, Karachi area died on the 26th October, 1953 while Sardar Muhammad Akbar Khan Bugti ceased to be a member of that Local Board owing to his failure to be registered as a shareholder of the Bank of the unencumbered shares of the nominal value of Rs. 500/- within six months from the date of his nomination as laid down in clause 12 (1) of the State Bank of Pakistan Order, 1948. The consequential vacancies remained unfilled.

8. Efforts to develop and strengthen the organisation of the Bank so as to make it more useful to the country continued. During the year the inspection of the Chittagong and Dacca offices was conducted. The Department of Agricultural Credit was strengthened by the appointment of a Director. In the Exchange Control Department arrangements were made for the inspection of the books and the accounts of Authorised Dealers by an officer of the Department.

9. A branch of the Bank was opened at Khulna on the 1st April, 1954 to take over banking, government business and exchange control work. The Issue Department located at Lahore which had been shifted to Peshawar in April, 1949, was re-established in March, 1954. Its area of operation is, however, limited to the Punjab and Bahawalpur. The N.W.F.P. will continue to be served by the Issue Department at Peshawar. The functions of the Quetta Branch have been enlarged since 1st January, 1954 by the establishment of an Exchange Control unit.

10. At the last Annual General Meeting some of the shareholders complained of the difficulties experienced by them in obtaining refund of income tax deducted at source on the dividends payable to them as also in obtaining



exemption certificates in respect of income tax. The Board considered this matter and it was decided that in order to facilitate the work of lodging claims for refund of income tax on the dividend amount, the Bank should provide advice and assistance. Accordingly liaison officers have been appointed at Lahore and Dacca for this purpose. The question of making similar arrangements at Karachi is under consideration.

11. In collaboration with the National Bank of Pakistan, the Habib Bank and the Muslim Commercial Bank, a scheme for training young graduates for supervisory posts was introduced. After a country-wide selection 100 trainees have been selected and are being placed for training for one year with banks at Karachi, Dacca, Lahore and Chittagong. The first six months of training will cover both theoretical and practical work and the remaining period will be spent exclusively on practical training. Special arrangements have been made with East Bengal Government and the Universities of Punjab and Dacca for the theoretical training at Chittagong, Lahore and Dacca respectively and the Board appreciates their assistance and co-operation in this regard. The Bank will arrange for the theoretical training at Karachi. The services of an experienced educationist have been obtained to supervise the entire scheme and conduct the training classes at Karachi.

12. During the year, two officers of the Bank were awarded U.N. fellowships, one for study in Australia in the fields of central banking, rural credit and industrial banking and the other for observing research techniques and organisations in some Central Banks in Europe. Both officers have completed their study tours. Six seats were obtained this year for the training of Pakistan nationals in commercial banking in U.K. The training of selected candidates has to commence from July, 1954.

13. The progress made in the implementation of the building projects of the Bank during the year under review is detailed below:—

Building  
Projects.

### **Karachi.**

A site to the west of the Central Government's multi-storeyed building on Kingsway has been allotted for the use of the Bank. A suitable firm of architects has been selected for the Bank's main building at Karachi and it is hoped that the plans for this project will be completed and the works taken in hand early in 1955.

A plot of land on Bonus Road has been purchased for the construction of a house for the Governor. The old structure on the plot has been demolished and construction work will start shortly.

It has been the Bank's policy to assist its staff wherever possible in the present acute shortage of housing accommodation. In furtherance of this policy the Bank acquired a large plot in the Artillery Maidan Area. Plans for the construction of blocks of flats on this plot for Class I and Class II Officers have been completed and the construction work is expected to start shortly. When ready the colony will provide accommodation for 30 Class I Officers and 56 Class II Officers. With the same object in view negotiations are proceeding for the acquisition of 40 acres of land from the Karachi Improvement Trust in their North of Nazimabad Development Scheme for the construction of quarters for the clerical and subordinate staff. Five plots of land measuring 2000 sq. yds. each have been purchased in the Karachi Improvement Trust's Drigh Road Town Expansion Scheme for constructing quarters for senior and principal officers.

The construction of a hut at Sandspit to provide recreation facilities to the officers and staff of the bank is nearing completion.



## Chittagong.

The Bank's building at Chittagong, the construction work in respect of which was started in January 1952, was completed during the year under report. It was formally opened on the 29th November, 1953 by His Excellency Chowdhary Khaliquzzaman the then Governor, East Bengal. This is the first building put up by the State Bank.

The construction of 106 staff quarters of various categories at Chittagong is nearing completion.

## Dacca.

Plans for the construction of quarters for clerical and subordinate staff and officers have been approved and the Pak. P.W.D., who have been entrusted with the work, are finalizing requisite preliminaries.

The construction of a three-storeyed block of building to the south of the Dacca office building with a net floor area of about 17,000 sq. ft. is in progress and about 50% of the entire work has been completed.

14. Welfare activities received fresh impetus during the year. Canteens for the staff Welfare Activities. were established at the Bank's offices at Karachi, Dacca, Lahore, Chittagong and Peshawar. A sum of Rs. 7,497-3-0 has been spent on the purchase of furniture and crockery for the canteens. Necessary staff, accommodation and working capital in the shape of advances repayable in easy instalments have also been provided by the Bank. A Welfare Fund with a sum of Rs. 10,000 was created in September, 1953 to encourage Welfare Organisations such as Co-operative Stores, and Sports Clubs at our offices and a sum of Rs. 6,034-10-6 was disbursed as donations. Loans free of interest have also been given to the staff co-operative stores for financing their operations.

The scope of medical facilities for the staff has been enlarged. The Bank's dispensaries at various centres are being equipped with necessary instruments and stocks of medicines.

15. The Balance Sheet as at 30th June, 1954 and the Profit and Loss Account of the Bank for the year ended 30th June, 1954 appear on pages 36-39. The Profit and Loss Account figures for the previous two years have also been incorporated to facilitate comparison. On the liabilities side of the Balance Sheet, the deposits of the Central Government decreased, the balance being Rs. 18.63 crores on the 30th June, 1954, as against Rs. 37.30 crores on the 30th June, 1953. The deposits of the Provincial Governments increased from Rs. 72 lacs on the 30th June, 1953 to Rs. 2.54 crores showing a net increase of Rs. 1.82 crores over the figures of the previous year. The deposits maintained by banks also increased slightly from Rs. 15.43 crores on the 30th June, 1953 to Rs. 15.47 crores on the 30th June, 1954. In the aggregate, throughout the year the deposits of the Scheduled Banks remained considerably above the statutory minimum limit prescribed under clause 26 (1) of the State Bank of Pakistan Order, 1948.

On the assets side, the balance under 'Government Treasury Bills' was nil on the 30th June, 1954 as against the balance of Rs. 1.95 crores on the 30th June, 1953. 'Loans and Advances to Governments' increased from Rs. 1.83 crores on the 30th June, 1953 to Rs. 5.23 crores on the 30th June, 1954 showing a net increase of Rs. 3.40 crores which was due to advances made to Provincial and State Governments against Central and Provincial Government Securities. The balance under the head "Provincial Governments' Debtor Balances", however, recorded a fall of Rs. 6.66 crores over the figures of the previous year, the debit balances being Rs. 1.48 crores on the 30th June, 1954 as against Rs. 8.14 crores on the 30th June, 1953.



As regards the balance in our 'Main Account' with the Reserve Bank of India which figures as an asset in our Banking Department, India has not yet agreed to its writing up as required under the provisions of the Payments Agreement between India and Pakistan. The position, therefore, remains unchanged and as in the previous years the auditors have added the following sentence in their report on the Balance Sheet and Profit and Loss Account for the year ended 30th June, 1954: "No provision has been made in the accounts for the difference in exchange amounting to Rs. 7,86,86,833/- in respect of the items referred to in the notes below the Banking Department Balance Sheet". As reported last year, the Bank has the assurance of the Government that it would be given full protection in respect of this difference.

16. The balance sheet of the Issue Department as on the 30th June, 1954 is reproduced at page 36 of the report. A comparison of this balance sheet with that as on the 30th June, 1953 shows that the total has risen from Rs. 218.49 crores to Rs. 236.46 crores on the 30th June, 1954 owing to the rise in note circulation. On the assets side, the figure under the head "Gold Coin and Bullion" has remained unchanged at Rs. 7.91 crores. Sterling securities have decreased from Rs. 39.39 crores to Rs. 38.75 crores mainly as a result of their transfer from Issue Department to Banking Department. Government of India Securities which stood at Rs. 11.86 crores have increased to Rs. 13.97 crores due to transfer from Banking Department to Issue Department. The figure under 'India Notes representing assets receivable from the Reserve Bank of India' and under 'the balances held by the Reserve Bank of India pending transfer to Pakistan' remain unchanged at Rs. 34.24 crores. Government of Pakistan Securities have increased from Rs. 118.77 crores to Rs. 136.29 crores on the 30th June, 1954 due to transfer from Banking to Issue Department. The ratio of Gold Coin and Bullion, Silver Bullion,

Sterling Securities and Approved Foreign Exchange to total notes issued was 40.00 per cent on the 30th June, 1954 as against 42.61 per cent on the 30th June, 1953.

The total value of the share of the Government of Pakistan in the assets of the Issue Department of the Reserve Bank of India amounted to India Rs. 176.75 crores out of which assets for India Rs. 127.67 crores only have so far been received by the State Bank of Pakistan. The Reserve Bank of India have not yet transferred the remaining portion of the assets to the State Bank of Pakistan.

The Pakistan Security Printing Corporation Ltd., Karachi, which started printing notes of the denominations of Re. 1/- and Rs. 5/- in 1952-53 has now started printing notes of all denominations.

New bank notes of Rs. 100/- denomination printed by Messrs. Thomas De La Rue & Co., were put into circulation with effect from the 15th September, 1953.

17. During the year 1953-54 the Government of Pakistan by a notification issued by them in exercise of the powers conferred by section 6 of the Pakistan Coinage Act (III of 1906) notified the minting of two anna and one anna coins composed of copper and nickel alloy.

The amount of Pakistan rupee coins in circulation amounted to Rs. 5.21 crores on the 30th June, 1954, as against Rs. 4.71 crores on the 30th June, 1953. One rupee notes in circulation as on the 30th June, 1954 amounted to Rs. 8.32 crores as against Rs. 7.64 crores last year.

As regards Pakistan subsidiary coins (coins of denominations lower than Re. 1/-), their circulation amounted to Rs. 8.33 crores as on 30th June, 1954, as against Rs. 7.88 crores on the 30th June, 1953.



18. As in past years, pilgrims to Mecca were provided with foreign exchange in the form of Haj notes. Due to reduction in the number of pilgrims, the total issue of Pilgrim Notes amounted to Rs. 1,01,84,450 as compared to Rs. 1,90,29,020 during 1952. During the year under review notes both of the denominations of Rs. 100/- and Rs. 10/- were issued as during the previous year.

This year the Saudi Arabian Monetary Agency have formulated a scheme for the the issue of Pilgrim Receipts, expressed in Riyals, to the pilgrims through the Central Bank of the country from which the pilgrims proceed to Hejaz. The intention of the scheme is to avoid hardship caused to the pilgrims by fluctuations in the value of the Riyal during the Haj season. The Riyal Receipts are bearer instruments printed on currency note paper and are payable at par to the bearer at sight at any office of the Agency in Saudi Arabia. The scheme is basically similar to that concerning our Pilgrim Notes. Riyal Receipt of the value of Rs. 9 lacs were received in Pakistan and have been issued to Pilgrims.

19. Commercial Banking. expand during the year and 30 new bank branches were opened as against 27 in 1952-53. Of these, 12 branches were opened by the National Bank of Pakistan, 11 by the Habib Bank Ltd., and the remaining 7 by other banks. The National Bank of Pakistan also opened a branch at London.

20. Scheduled Banks. The number of scheduled banks remained unchanged at 32. The total number of offices of the scheduled banks, including branches and pay offices etc., was 246 at the end of June, 1954, as against 218 in 1953 and 631 before partition.

The following table compares the position of the scheduled banks operating in Pakistan on the 25th

June, 1954 with their position on the 26th June, 1953:—

		<i>In lacs of Rs.</i>	
		26-6-53	25-6-54
Demand Liabilities	...	1,21,12	1,26,22
Time Liabilities	...	31,99	45,91
		<hr/>	<hr/>
		1,53,11	1,72,13
		<hr/>	<hr/>
Borrowings from the State			
Bank of Pakistan	...	77	1,41
Cash in hand	...	4,92	4,40
Balances with State Bank of Pakistan	...	13,25	14,28
Balances with other banks in current account in Pakistan		*N.A.	3,71
Money at call and short notice in Pakistan	...	*N.A.	3,27
Investments	...	*N.A.	67,11
Advances in Pakistan	...	54,14	66,12
Bills purchased and discounted in Pakistan	...	11,43	12,77

The above figures indicate an increase of Rs. 19.02 crores in the demand and time liabilities of the scheduled banks during the year under report, as compared with an increase of Rs. 13.55 crores during the previous year. This represented an increase of Rs. 5.10 crores in demand liabilities and of Rs. 13.92 crores in time liabilities. In the third week of June, 1954 demand and time liabilities reached the record figure of Rs. 173.51 crores.

Till money of the scheduled banks declined slightly by Rs. 0.52 crore over the year while their balances with State Bank of Pakistan increased by Rs. 1.03 crores. Advances together with bills purchased and discounted in Pakistan showed an increase of Rs. 13.32 crores over the year as against a decline of Rs. 12.44 crores during the previous year.

\*These figures are being compiled since 29.1.54.



During the year, 8 banks including one Provincial Co-operative Bank, were granted accommodation by the State Bank by way of demand loans or overdrafts aggregating Rs. 21.32 crores as against Rs. 24.57 crores advanced to 8 banks during the previous year. Out of this a sum of Rs 6.71 crores was advanced under the Bill Discounting Scheme introduced last year.

21. The total number of non-scheduled banks submitting returns under the Banking Companies (Control) Act, 1948 stood at 46 as on the 25th June, 1954 as against 70 on the 3rd July, 1953. Out of these 35 were functioning in East Pakistan and 11 in West Pakistan. The total liabilities of the reporting non-scheduled banks as on that date amounted to Rs. 1.54 crores. During the year ended the 30th June, 1954, 38 non-scheduled banks in East Pakistan were declared as defunct and were struck off the Register of Companies under Section 247 of the Companies Act.

22. The programme of inspection of banks which was started in 1951 with the object of promoting soundness in the financial position and in the methods of operation of banks was continued. Four scheduled banks and 2 non-scheduled banks were inspected during the year. This brings the total number of banks inspected since 1951 to 19 of which 3 were co-operative banks. The defects in the methods and procedures of operation revealed by these inspections were pointed out to the banks concerned together with suggestions for rectification and corrective measures.

23. During the period under report, 4 non-scheduled banks in East Pakistan were ordered into liquidation for non-fulfilment of the requirements of the Banking Companies (Control) Act, 1948. In West Pakistan, one non-scheduled bank, which was already under provisional liquidation, was ordered to be wound up and another

bank was ordered into provisional liquidation. The State Bank was appointed Official Liquidator of one bank in Western Pakistan and on the request of the Dacca High Court, undertook to become Official Liquidator of another bank. In addition the State Bank was appointed Provisional Liquidator of one bank in West Pakistan.

24. During the year a few amendments were made in the State Bank of Pakistan Order by the promulgation of Act No. XXX of 1953. Two of the amendments were concerning shares of the Bank. By the first amendment sub-clause 4 of clause 5 of the Order was substituted by a new clause. As a result of this change the restriction on the ownership of the shares which were limited to 500 shares per individual or institution was removed. In addition the new clause declared the shares of the State Bank of Pakistan as approved securities for purposes of the Trusts Act 1882 and other relevant Acts. A new sub-clause (6A) was added to clause 5 in order to enable the holder of a notified public office to transfer the holdings of shares to his successor in office without any further endorsement or transfer deed. The main reason for these changes was to remove the drawbacks which deterred institutional investors from investing their surplus funds in State Bank shares.

Another change introduced was the amendment of sub-clause 2 of clause 26 of the Order. In consequence of this amendment some additional items of information in the Weekly Returns submitted by the Scheduled Banks to the State Bank of Pakistan have been added.

25. In the earlier reports the difficulty of expanding the Agricultural Credit Department due to lack of personnel with requisite technical qualifications and experience was mentioned. During the year under review a senior officer, at one time a Registrar of Co-operative Societies in the Punjab, was appointed as Director of this

Banking  
Legislation.

Rural Finance and  
Co-operative Banks.



Department. The services of an officer were also obtained from the East Bengal Government to attend to the work of this Department at Dacca. The Department has yet to be fully organised but it is hoped that these changes will increase its usefulness and enable it to make a fuller contribution to the study of problems connected with rural finance, co-operation and allied subjects. The Foreign Operations Administration of U.S.A. have placed at the disposal of the Government of Pakistan a Farm Credit Adviser for a period of two years. He took up his assignment in May this year.

During the first year of its existence, the Agricultural Development Finance Corporation which was set up in July, 1952, and commenced its business in March 1953, sanctioned loans to the extent of Rs. 26.60 lakhs against 216 applications for loans. The rate of interest charged by the Corporation has been reduced from  $6\frac{1}{4}\%$  to  $5\%$  per annum for individuals and  $4\%$  per annum for cooperative societies.

During the year the State Bank granted overdraft facilities of Rs. 3 crores against Government securities to a Provincial Co-operative Bank. Of this a sum of Rs. 2.50 crores was actually drawn. Apart from this the State Bank sanctioned a limit of Rs. 1 crore to the same bank for re-discount of agricultural paper.

26. The Government of Pakistan issued during the year securities for Rs. 5 crores each of  $3\%$  Loan 1958 and  $3\%$  Loan 1960. Securities of the face value of Rs. 2.34 crores of  $2\frac{3}{4}\%$  Loan 1953-54 which was notified in May 1953 for redemption were tendered for repayment during the year 1953-54. As a result of these operations the total debt of the Central Government increased from Rs. 127.41 crores on 30th June, 1953 to Rs. 135.07 crores on 30th June, 1954.

The sales of the 90-day Government of Pakistan Treasury Bills aggregated Rs. 26,88,49,485-4-1

during the year. Of these, bills of the value of Rs. 12,38,76,380/- were outstanding as on the 30th June, 1954.

The Punjab Government floated  $3\frac{1}{2}\%$  Loan 1961 during the year. The subscriptions received towards the loan amounted to Rs. 3,27,22,100/-. The Punjab Government invested a sum of Rs. 8,15,000/- in their securities for the amortisation of their debt.

The East Bengal Government floated  $3\frac{1}{2}\%$  Loan 1960 during the year. This was the first loan floated by the East Bengal Government. The subscriptions received towards the loan amounted to Rs. 3,34,14,700.

The balances of Provincial Governments' loans outstanding as on 30th June, 1954 were as under:—

(a) Punjab	...	...	Rs. 22,51,83,200/-
(b) East Bengal	...	...	Rs. 3,33,54, 500/-
(c) Sind.	...	...	Rs. 1,24,56,300/-
(d) N.W.F.P.	...	...	Rs. 75,00,000/-
Total			Rs. 27,84,94,000/-

27. The Pakistan Industrial Finance Corporation extended its business during the year under review. In several cases it issued guarantees on behalf of Pakistan industrialists to foreign exporters for the import of capital goods under the deferred payments scheme. The number of loan applications received by the Corporation, however, declined from 161 in 1952-53 to 110 during the year under review. Twenty-four applications including three from existing clients for additional loans, aggregating Rs. 1.52 crores, were sanctioned during the year under review as compared to forty applications aggregating Rs. 1.54 crores in the preceding year. Industries which received assistance from the Corporation for the first time were jute textiles, plastic and refractory and clay works. Industries which received increased help as compared to the preceding year were cotton ginning, preserved and prepared



food and jute processing while the amount of accommodation declined in the case of tanned leather goods, textiles (including cotton, woollen, silk and rayon), hosiery and engineering.

The House Building Finance Corporation commenced operations during the year under review with offices at Karachi, Lahore and Dacca. By the end of June, 1954 the Corporation sanctioned 308 loans totalling a sum of Rs. 40.91 lakhs. Credit facilities have been extended to 25 urban areas in the country six of them being in East Bengal. The maximum limit per loan to an individual was raised from Rs. 10,000 originally provided in the rules, to Rs. 40,000 (the maximum permissible under the Act). The number of loan applications received did not rise sharply due to the fact that in the federal capital most of the housing co-operative societies had not been given the licences by the Government for the land allotted to them and consequently the allottees of plots of land did not possess sub-licences of the housing societies. The difficulty in other towns and cities was that the provincial governments had not finalised the allotment of plots of land in the satellite towns. The rate of interest on house-building loans to individuals has been reduced from 6% to 5% with effect from 1st April, 1954. The rate of interest chargeable from the co-operative societies has been fixed at 4%.

28. Activity in the short-term money market was on a very limited scale during the first quarter of the year under review. The inter-bank call money rate remained at a nominal  $\frac{1}{4}$ % until September, 1953, reflecting easy credit conditions due to seasonal slackness. The onset of the new busy season resulted in a steady increase in the demand for short-term funds and the call money rate hardened to  $1\frac{1}{4}$ % by the end of the year. A further rise in the scale of inter-bank borrowings in January, 1954 led to stringent conditions and the rate was pushed up to  $2\frac{1}{4}$ % in the second fortnight of January at which level it continued throughout February. A

Money  
Market.



weaker tendency became noticeable in March, the call rate declining to  $1\frac{1}{2}\%$ , and after remaining steady at that level throughout April it continued to decline in subsequent months, due to the striking improvement in banks' liquidity position, and was being quoted at a nominal  $\frac{1}{4}\%$  at the close of the year under review.

Surplus bank funds in the early months of the year found a ready outlet in 90-day Government treasury bills, tenders for which were first invited on 23rd July, 1953. Though the first offer was only for Rs. 1 crore, applications were received for about Rs. 1.70 crores. Tenders at Rs. 99-13-0 and above were accepted in full, the average rate working out at As.-/11/5 per cent per annum. Treasury bills were placed on tap with effect from 4th August, 1953 at the fixed rate of Rs. 99/14/- so that the rate worked out to As.-/8/- per cent per annum. Subscriptions to treasury bills later in the year were mainly in respect of deferred payment for the import of capital goods from certain countries. Under this arrangement importers of capital goods were required to deposit in Treasury Bills amounts for which forward exchange cover was sought.

29. Money supply representing currency circulation and demand deposits of the scheduled banks, registered an increase of Rs. 21.83 crores to Rs. 366.60 crores during the year under review. The following table shows the trend in money supply.

(In crores of Rupees)

Currency circulation		Demand deposits.	Total money supply.
June, 1953	223.87	120.90	344.77
Sept., 1953	217.17	125.55	342.72
Dec., 1953	237.18	121.31	358.49
March, 1954	249.56	122.84	372.40
June, 1954	241.84	124.76	366.60

Money supply decreased by Rs. 2.05 crores during July-September, 1953, consequent on the seasonal retirement of funds. With the progress of the busy season it increased by Rs. 15.77 crores in the next quarter, the main causative factors being the rise in bank credit and a surplus in the balance of payments on private account. A continued rise in the lending activity of the commercial banks and the continuance of a surplus in the balance of payments on private account raised the money supply by Rs. 13.91 crores to Rs. 372.40 crores during January-March, 1954. Thereafter a decline of Rs. 5.80 crores occurred during the last quarter, mainly caused by a seasonal retirement of funds, consequent on the slackened tempo of commercial activity in the country, particularly in the export sector.

30. Fiscal policy at the Centre continued its pronounced bias towards industrial development of the country. Estimates of capital expenditure in 1954-55 are placed at Rs. 60.51 crores as against the revised estimate of Rs. 52.11 crores in 1953-54 with the provision for industrial development at Rs. 18.67 crores as against Rs. 11.80 crores in the revised estimates of 1953-54. In addition, the central government have provided in their budget estimates Rs. 35.94 crores for development loans to provinces, states and local bodies as against Rs. 29.82 crores in the revised estimates for 1953-54. The taxation measures for 1954-55 are designed to provide stimulus to developmental activity in the private sectors by increasing the capacity for savings and investment, raising the exemption limit for income-tax from Rs. 3,600 to Rs. 4,200 and permitting larger deductions for insurance premia and contributions to provident funds. Industry is being assisted through an adjustment of import taxes on capital goods, including machinery and spare parts, on which a flat import duty of 5% is applied and total exemption granted from sales tax. Specific encouragement has been given to small-scale textile processing industry by exempting from payment of



excise duty, the cost of printing, dyeing, bleaching or sizing cloth in factories employing less than 20 workers. A rebate of 20% has been allowed to radio assembling industry on component parts imported from abroad. Capital outlay on scientific research is permitted to be currently deducted from profits, instead of being adjusted over a period of 5 years. Existing concession in regard to exemption from income-tax upto 20% of income invested in the share capital of approved industrial undertakings has been extended for another year.

31. There was a marked increase in the scale of operations on the Karachi Stock Exchange during 1953-54. Most floatations during the year met an encouraging response while previously listed issues registered substantial net gains, though amidst wide fluctuations. Hopes of capital appreciation supported by expectation of substantial dividends on industrial shares diverted funds to the stock exchange from other markets which remained slack over the year. Pressure of speculative purchases led to an unhealthy boom and culminated in the closure of market on 19th November for 10 days. After the resumption of official business on 28th November, a reaction set in as floatation of new issues by private companies, Pakistan Industrial Development Corporation and Provincial Governments absorbed a substantial part of idle funds and operators found it attractive to remain liquid in order to snatch opportunities for quick gains through capital appreciation of new scrips. An increase in the level of activity in other sectors, particularly the import trade, during the latter half of the year released funds temporarily invested in shares and news of disturbances from East Bengal depressed the market sentiment further, so that widespread losses were sustained particularly on shares of undertakings situated in East Bengal. Restoration of relatively normal conditions in the eastern wing and greater confidence in the over-all economic outlook led to a revival of confidence at the end of the year.



State Bank shares which were at times quoted as low as Rs. 89/-/- improved to par during the year following removal of restriction on the size of individual holdings and their declaration as trustee security. In the securities market, the demand was fairly high for both central and provincial government securities. A further adjustment to the new yield pattern set by the floatation of 3% 1958 and 3% 1961 loans in June last year took place during August and was responsible for a considerable increase in business activity in subsequent months. The demand was sustained during the year under report even in the busy season due to considerable slack accumulated in the economy. In the provincial group newly floated 3½% 1961 Punjab and 3½% 1960 East Bengal were more keenly sought.

32. During the major portion of the period under review, the Karachi bullion market evinced a bullish undertone and in May, 1954 quotations touched the highest levels recorded in the post-partition period.

Although gold (ready) and gold (forward) opened weak at Rs. 90/2/- and Rs. 89/12/- per tola respectively following the easing of world tension after the signing of the Korean armistice, the declining tendency was checked by September and there commenced an upward trend in prices due to heavy up-country demand, paucity of ready stocks due to reduced arrivals and substantial amounts of speculative buying. End-June quotations of gold (ready) and gold (forward) at Rs. 96/5/- and Rs. 96/3/3 respectively reflected net improvements of Rs. 5/1/- and Rs. 5/8/3 per tola as compared with the corresponding quotations a year ago.

In the silver market, opening quotations for coins and handles stood at Rs. 125/- and Rs. 130/- per 100 tolas respectively. Similar conditions as in the gold market were operative and prices reached the record levels of Rs. 145/- and Rs. 160/- respectively at the end

of May, 1954. The market, however, ruled easy during June and by the end of the month quotations of coins and handles had dropped to Rs. 142/8/- and Rs. 150/8/- per 100 tolas respectively.

33. According to official estimates the area under jute cultivation was reduced by 60% in 1953-54 to 760,000 acres compared with 1,907,000 acres in the previous year; total yield consequently fell to 37.5 lakh bales as against 6,823,000 bales in the previous season. Acreage was restricted to prevent over-production and yield a crop which, together with the carry-over of 28 lac bales, would be sufficient to meet the season's estimated requirements. The total world supply stood at the level of normal world demand, after taking into account the Indian supply which included a crop of 3,128,000 bales and a stock of 1,618,000 bales from the previous year.

In view of the reduced supply position, the minimum prices of jute were withdrawn; the State Bank continued, however, to operate an export-price-check. No changes were made in export duty, except for a levy of Rs. 5 per bale on cut ropes.

During the season under report, 63 co-operative societies were made responsible for the purchase of jute in border areas and at 47 other centres in the province and for this purpose were provided with a loan of Rs. 1 crore from the National Bank of Pakistan on government guarantee. In spite of the reduced supply, the jute market was generally easy due to good stock position of raw jute with mills and a slow pace of purchase by price-conscious foreign buyers. Every rise in price was checked by the withdrawal of buying support followed by a temporarily decreased level of business and lower prices. The price of white bottom rose from Rs. 19/8/- to Rs. 23/- per maund by the end of August. The trend was, however reversed and the price fell to Rs. 19/- at the end of the first quarter. The peak was reached at Rs. 25/- in November and almost immediately gave way to a



period in which irregular fluctuations occurred with a distinct downward trend in the price-level. The season closed below the opening level at Rs. 18/- per maund.

During the year under report total exports amounted to 5,124,000 bales of which India imported 1,409,000 bales and overseas countries 3,715,000 bales. The comparable figures for the previous year were 1,391,000 bales to India and 4,029,000 bales to overseas countries. Taking into account the estimated internal consumption, the carry-over into the 1954-55 season was estimated at 10.5 lakh bales.

34. The world cotton situation during the 1953-54 season was characterised by marked excess of total supplies over aggregate world demand for raw cotton. With world production at a record-level of 37.2 million bales and carry-over stocks in August, 1953 at 17.0 million bales, total world supplies were 3.6 million bales higher than in 1952-53 whereas world consumption increased by 1.0 million bales only, from 33.5 million to 34.5 million bales.

In Pakistan, the 1953-54 season started with a physical carry-over of 245,000 bales, more than half of which had already been contracted for and was awaiting shipment. Acreage under cotton was reduced as part of the Grow-More-Food campaign and trade estimates placed the new season's crop at only 14.3 lakh bales as against the preceding season's production of 18.0 lakh bales. Another encouraging factor was the estimated increase in annual domestic mill consumption from 3.5 lakh bales in the outgoing season to over 5.0 lakh bales during 1953-54. In view, however, of abundant world supplies and the continuance of a buyer's market, the export duty was kept unchanged at Rs. 90/- per bale on staple varieties. An export duty of Rs. 60/- per bale was, however, imposed on desi cotton, which had been selling at a premium over staple variety cotton since February, 1953.



Dull conditions prevailed in the Karachi cotton market in the early weeks of the new season. With the rising flow of new crop cotton there resulted a notable expansion in the volume of business turnover by October, and heavy export sales coupled with increased domestic mill offtake imparted considerable strength to the market. Prices registered a rising tendency and by the third week of March had touched record levels for the season, when N.T. (R.G.) and 289F (R.G.) were selling at Rs. 87/12 and Rs. 91/- per maund respectively, as compared with Rs. 63/12 and Rs. 66/8 per maund in mid-November. In April, however, prices began to ease as overseas enquiries slackened and domestic mill purchases were on a minor scale and as a result of uncertainty regarding U.S. export policies designed to facilitate disposal of heavy farm surpluses. For some time the declining trend met with stiff resistance, largely because of the decline in upcountry arrivals, the favourable statistical position of Pakistan cotton and business optimism regarding an eventual broadening of foreign demand. Due to continued lack of adequate buying support, however, selling pressure increased considerably during May and prices fell sharply. The easiness continued throughout June and market prices at the end of the month stood at Sind Desi (Rs. 75/-), Punjab Desi (Rs. 72/-), 4F Roller (Rs. 68/-), L.S.S. Roller (Rs. 72/-), N. T. Roller (Rs. 72/8) and 289F Roller (Rs. 74/8).

Total upcountry arrivals during September/June this season amounted to 11.1 lakh bales, as compared with 16.3 lakh bales in the corresponding period last season. E.P.C. registrations this season totalled 8.5 lakh bales by the end of June, as against 14.7 lakh bales in the same period last year. Practically all the major purchasers, except China, contracted for considerably lower amounts during 1953-54 as compared with the preceding season. China entered the market early in the season and by the end of March had bought 1.9 lakh bales; thereafter, it has not made any additional purchases. Actual shipments of raw

cotton during July 1953/June 1954 stood at 11.7 lakh bales, as compared with 15.1 lakh bales in the preceding year.

35. The area under tea during the year was 75,000 acres or 2,000 acres higher than in the previous year. Production was estimated at 52 million lbs., compared with 54 million lbs. in the previous year. United Kingdom emerged as the traditional buyer, taking about 95% of the total exports of tea followed by Afghanistan. Internal consumption was estimated at about 30 million lbs. Prices recorded a steady advance during the year due to increased consumption particularly in the United Kingdom.

36. The hides market passed through a difficult period during the year under report. Hides and Skins. Hides were seriously affected by a steep fall in demand caused by severe competition from other producing countries and coupled with increased supply created a situation in which prices remained under constant pressure. The situation improved somewhat in the last quarter, due to a marked decline in arrivals and increased home consumption also offered some relief. The position in the skins market was less difficult as this item received fairly good support from foreign buyers.

During the year exports of hides and skins amounted to 10,170,000 pieces valued at Rs. 37,141,000 as compared with 10,166,000 pieces valued at Rs. 36,541,000 in the previous year.

37. There was a further decline in the value of exports during the year under review. \*Foreign Trade. The value of exports in 1953-54 was Rs. 128.6 crores as compared with Rs. 150.9 crores in the previous year. The decline was mainly accounted for by a substantial fall of Rs. 19.66 crores in the

\*Figures are derived from the Central Statistical Office and are provisional.



value of raw cotton exports. Wool and raw jute exports declined by about Rs. 1 crore each, while tea and hides and skins exports were almost unchanged in value. The relative figures for quantity and value of jute and cotton exports are given below:—

	Quantity.	Value.
Raw Jute Exports.		
1952-53	52.7 lakh bales	Rs. 56.63 crores.
1953-54	51.2 „ „	Rs. 55.6 „
Raw Cotton Exports.		
1952-53	15.06 lakh bales	Rs. 69.38 crores.
1953-54	11.71 „ „	Rs. 49.71 „

A decline in the quantity exported was recorded under both cotton and jute, the fall being rather more substantial under cotton, as a result of reduced production and increased domestic mill off-take. A decline in export prices also appeared to have contributed towards the decline in cotton exports. The overall export price index drifted lower upto the end of 1953 but thereafter showed some increase.

Total imports declined by Rs. 23.8 crores to stand at Rs. 111.4 crores.

A highly restrictive import policy continued to operate and most categories of imports remained at levels far below those in 1951-52. The import policy for the period July-December, 1953 listed 184 items only of which 33 consisted of essential consumer goods, the rest being mainly industrial raw materials, machinery and steel manufactures and metals. The policy for the next licensing period was slightly less restrictive, placing 287 items on the licensable list while imports of certain consumer articles banned earlier, were permitted.



With reduced earnings and the growing tempo of the development programme the import policy was necessarily designed to restrict expenditure on government and private imports within estimated earnings for the period and to allocate the largest quantity of foreign exchange for imports of industrial requirements.

Fresh efforts were made to expand and diversify exports. A wool grading scheme was introduced. Additions were made to the list of items on the Export O.G.L. No. VII, their number increasing to 137 at the end of June, 1954. Towards the end of the year a special export incentive scheme was introduced effective in the first instance, from June 29, 1954 to March, 1955. Exporters of a few specified exports would be entitled to obtain import licenses for certain specified goods upto 30% of their earnings from such goods.

38. A number of trade agreements were concluded during the year. An agreement with Japan ending March, 1954 was extended and operated throughout 1953-54. Under the agreement, Japan undertook to buy 6.5 lakh bales of raw cotton and 2.5 lakh bales of raw jute against imports by Pakistan of capital goods and machinery, cotton fabrics and yarn, rayon yarn and metals. Japan also undertook to supply the capital goods and machinery on the basis of deferred payments spread over a period of 5 years. Imports of capital goods were also allowed under a similar arrangement from other countries.

A trade and payments agreement was concluded with France in April, 1953 for the calendar year 1953, providing for trade between Pakistan and France of Rs. 20 crores both ways. Under the agreement exports of cotton from Pakistan were to be paid in French francs, which were to be utilised for import of certain goods from the French Franc Account area. Payments for other exports were to

continue in sterling. At the termination of the agreement, the balance in French francs was to be adjusted in sterling. Pakistan had accumulated a balance amounting to Frc. 2419 million at the end of June, 1954 and this is due to be settled in sterling. Apart from cotton, the main exports to France under the agreement were to consist of 80,000 tons of jute while imports were to be mainly iron and steel manufactures and machinery. The agreement was renewed for a period of 18 months ending June 30, 1955. France agreed to provide import licences for 20,000 tons of cotton for the calendar year 1954 and additional 10,000 tons by 30th June, 1955. The other major exports to France were to be 20,000 tons of raw jute. Any balance due from or payable to France as on 30th June, 1955 in terms of the payments arrangements is to be settled in sterling.

Trade agreements were also signed between Pakistan and Italy on July 11, 1953 and with Germany later in the year. A distinctive feature of Pakistan-West Germany trade agreement was that Germany agreed to provide technical education and training to Pakistani nationals in her institution and factories. Trade agreements with China and Norway expired during the year and were not extended.

The agreement with India which had been signed in the previous year and was effective from 8th August, 1952 to 30th June, 1953 was extended for a period of three months upto 30th September, 1953. The payments arrangements with India under which net transactions are settled through sterling continued during the year. As a result of the transactions for the year a net amount of £640,000 was received from India.

39. The total foreign exchange receipts during the year under review amounted to Rs. 142.14 crores as against Rs. 152.10 crores in the previous year. The corresponding figures for payments were Rs. 144.93 crores and Rs. 192.79

Balance of Payments.



crores respectively. There was thus a deficit of Rs. 2.79 crores during 1953-54 as compared to Rs. 40.79 crores in the preceding year. Almost the entire decline in payments occurred under imports on private account, which were reduced by Rs. 47.96 crores to Rs. 73.45 crores only and other payments (invisibles) declined by Rs. 0.72 crore. Imports and other payments on Government account actually rose by Rs. 0.82 crore to Rs. 48.88 crores, though this was due to a reclassification of certain items in the balance of payments statement which transferred under this head Rs. 9.73 crores previously shown under imports on private account. On the side of receipts there was decline under both exports (Rs. 3.91 crores) and other receipts (invisibles) which came down from Rs. 17.93 crores to Rs. 11.88 crores only.

The small deficit over the year concealed a substantial deterioration towards the end of the period under review. Starting from a surplus of Rs. 0.92 crore in July/September, 1953, the surplus increased to Rs. 4.39 crores in October/December 1953, entirely due to an improvement in receipts caused by the seasonally high level of exports. In January/March 1954, the surplus declined to Rs. 1.73 crores, as payments rose faster than receipts; the last quarter registered a deficit of Rs. 9.83 crores as payments rose to a peak quarterly level of Rs. 40.02 crores in the face of a sharp fall in receipt to their lowest quarterly level of Rs. 30.19 crores, as slack season influences appeared to operate strongly by the end of March.

The over-all deficit was financed by drawing upon "gold and foreign exchange" reserves which declined from Rs. 66.88 crores at the end of June 1953 to Rs. 63.05 crores at the close of the year.

The geographical distribution of the balance of payments reflected an over-all improvement, but at a lower level of payments under all groups of countries than in the previous year; receipts also declined,



except in the case of Continental Europe and the 'Other Sterling Area'. The virtual disappearance of payments for wheat from Canada and U.S.A. following the grant of U.S. wheat aid, helped to reduce the deficit from dollar area to Rs. 2.91 crores compared with Rs. 10.95 crores in the previous year. The deficit with U.K. which country accounted for roughly half of total payments amounted to Rs. 42.62 crores. A deficit of Rs. 6.89 crores with India in 1952-53 was converted into a small surplus of Rs. 0.46 crore, following a heavy fall in payments and despite a decline of Rs. 1.59 crores in receipts due to lower purchases of raw jute by India. A higher surplus of Rs. 5.91 crores with "Other Sterling Area Countries" helped to bring the over-all deficit with the sterling area from Rs. 55.63 crores to Rs. 36.25 crores only. The dollar and sterling area deficits were almost entirely offset by surpluses of Rs. 15.28 crores in Continental Europe, Rs. 9.94 crores with Japan and Rs. 11.15 crores with the 'Rest of the World'. The surplus with Japan increased by Rs. 1.96 crores compared with 1952-53 despite the fact that receipts from that country declined sharply by Rs. 6.86 crores, mainly due to much lower off-take of cotton than in earlier years.

40. During the period under report the following Exchange Control. ing changes were made in the exchange regulations:—

- (a) As from 14th September, 1953, all exports to Brazil were subjected to GRPX procedure under which there must be either advance payment or irrevocable letter of credit before the export is allowed.
- (b) A basic quota for travel to India was fixed effective from 16th February, 1954.
- (c) The free limit for persons bringing in Pakistan currency notes was raised from Rs. 50/- to Rs. 100/- effective from the 4th March, 1954. The free limit for taking out

of Pakistan currency notes remained unchanged at R. 50/- per person.

- (d) Steamship and air line companies were permitted, effective from the 4th March, 1954, to accept Pakistan currency notes for any petty purchases made on board by the travellers.
- (e) As from 22nd March, 1954, the Bank of England extended the Transferable Account area to include all countries outside the Scheduled Territories other than those in the American Account Area and subject to exclusion of Iran, Hungary and Turkey. Consequent on these changes the State Bank revised the method of receiving foreign exchange in respect of exports from Pakistan.
- (f) Basic travel quota for countries in the Middle East for persons travelling by deck class steamer was reduced to £ 30/- effective from 12th June, 1954.

41. In the rupee-sterling Exchange Market the Bank's quotation for telegraphic transfers remained unchanged throughout the year at 2s. 1-27/32d. selling and 2s. 1-15/16d. buying. The State Bank's rates for the sale and purchase of sterling also remained unchanged during the year:

Selling ready:	2s. 1 57/64d.
Selling forward upto 6 months:	2s. 1 7/8d.
Purchase ready & forward delivery upto 6 months:	2s. 1 29/32d.

The total sales of Sterling to Authorised Dealers by the State Bank during the year amounted to £. 33.73 million and total purchases £. 63.87 million.



42. During the year under review, the International Bank sanctioned a loan of £ 5 million for the construction of a natural gas transmission pipe-line from Sui in Baluchistan to Karachi. The loan was signed on June 2, 1954 and is for a term of 20 years. It bears interest of  $4\frac{3}{4}\%$  per annum, including the statutory 1% commission charged by the Bank. The loan is guaranteed by the Government of Pakistan and is secured by a trust deed with Baring Brothers and Company Ltd., (London) as trustees.

There were no transactions with the International Monetary Fund during the year.

43. Progress towards a better adjustment and balance in the world economy was the dominating trend emerging from the exceptionally diverse conditions prevailing in individual countries during the year under review. While a steady decline occurred in the level of U.S. business activity after mid-1953, over-all world production and international trade remained at high levels mainly due to an expansion of economic activity in Western Europe and in the overseas areas associated with them. Though over-all economic activity in under-developed countries remained slack and terms of trade appeared to be moving against them their payments position indicated some improvement. Commodity and retail prices remained relatively stable in most countries, despite a widespread removal of controls and the restoration of free market conditions.

The disequilibrium in international transactions lessened considerably and official gold holdings outside the U. S. increased. It was specially encouraging that the improvement in foreign exchange reserves was not the result of the imposition of fresh restrictions. World trade which had declined in 1952 recovered during 1953 and in volume nearly equalled the level reached in the Korean war boom. This



improvement reflected the lessened dependence of the non-dollar world on U.S. markets, the better internal balance in several countries as inflationary pressures were controlled, the rise in production, particularly of agricultural commodities, and the continuing high level of U.S. imports and U.S. military and economic aid expenditure abroad. The sterling area central reserves reached \$ 3,017 million towards the end of June, 1954, the highest figure since September 1951 and higher by \$ 650 million over the previous year. The satisfactory improvement in the balance of payments of sterling area and some other countries of Western Europe increased prospects of an early move towards a measure of convertibility. In this connection, the extension of the use of transferable sterling to almost all non-dollar area countries of the world and the re-establishment of a market for gold in the first half of 1954 were major steps in this direction.

A high level of activity was well sustained by flexible monetary policies pursued by most advanced countries during the year under review. Reflecting the general easing of credit conditions the Bank Rate in U. K. was lowered from 4% to 3½% in October, 1953 and further reduced to 3% in May, 1954. Money rates in U. S. also declined and the discount rate of the Federal Reserve Bank was twice reduced between February and April, 1954.

Conditions in international commodity markets during 1953-54 were subdued, reflecting uncertainties about American business trends, growth in supplies and a greater sense of reserve among buyers. Production of a majority of raw materials in 1953 reached post-war peak. In the case of agricultural crops, surpluses mounted though Government's support operations, as in U. S. A., withheld the bulk of excess supplies of wheat, cotton, corn, etc., from the market. In earlier months of the year, the weakness in world commodity prices was accentuated as demand fell to its lowest level since September, 1949. Moody's Index of staple

commodity prices which stood at 418.4 (31st December, 1931=100) at the end of June, 1953, had by early October, 1953 declined to 388.9, its lowest point since the outbreak of the Korean war. But the phase of under-buying strengthened the technical position of several commodities as stocks with consumers were low and the price-index strengthened to 440.2 in the middle of April, 1954. Other factors such as improved holding capacity following an easier availability of credit to sellers in U. S. and other countries, a boom in beverage commodities due to short crops etc. contributed to this strength. Metals showed distinct improvement following U. S. Government announcements in March, 1954 that the stability of world markets would not be disturbed through sale of accumulated surpluses of industrial raw material and the assurance that surpluses held by the U.S. Government may be transferred to the stockpile, even if stockpile targets were reached, also gave support. After the middle of April, however, the general level of prices as indicated by Moody's Index, resumed a declining trend and the index had come down to 432.3 on 30th June, 1954 or only a little above the level of a year ago. As between groups of commodities, however, certain conflicting movements were visible. While raw materials with the exception of cotton, improved somewhat, the prospects for basic foodstuffs and other farm commodities, with the exception of beverages, were less promising. In fact, world market condition for agricultural commodities had reached a rather critical stage at the end of the year 1953-54. The adoption of any measures by U. S. to dispose of its surpluses was bound to have an adverse effect on world prices.

44. While the subdued level of commodity  
 General Survey  
 (Pakistan). markets continued to affect the country  
 adversely, the economic situation was,  
 on the whole, better during 1953-54. The food situa-  
 tion, which had caused grave concern in 1952-53  
 eased during the year under review, due to timely  
 grant of U. S. Wheat Aid. The food outlook



improved further as several short-term measures were taken to step up production as part of a 'Grow-More-Food' campaign. Wheat was derationed in the Punjab and North-West Frontier Province in January 1954 and the latest crop forecasts for the year 1953-54 indicate a substantial improvement in the supply position of food-grains. Increased production resulted in a surplus of rice, after allocation to emergency reserves of the provinces. While the easier food position helped to bring down prices of an essential article of consumption, prices of many consumer goods remained high due to restricted availability of imported goods as imports had to be curtailed to the lower level of foreign exchange receipts and reserves. However, increasing industrial production inside the country tended to provide some relief in this direction. Impressive gains were recorded in several industries under the impetus provided by reduced imports, protective tariffs and fiscal incentives, the rise in industrial production in 1953 alone being estimated at 60%. This rise in industrial activity also contributed to the improvement in the budgetary position of the Government during the year. Meanwhile a further substantial rise in output, particularly in jute manufactures and cotton textiles, is expected. The country's development is proceeding at a rapid pace and in course of time is sure to impart a greater balance and stability to the national economy.

45. Before we conclude we wish to record our appreciation of the loyal and sincere services rendered by the staff of the Bank during the year under report.

By order of the  
Central Board of Directors,  
ABDUL QADIR,  
Governor.



# STATE BANK OF PAKISTAN

## Balance Sheet as at the 30th June, 1954

### ISSUE DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	As. Ps.	Rs.	As. Ps.	Rs.	As. Ps.	
Notes held in the Banking Department	12,63,21,330	0 0	I-A. Gold Coin and Bullion	7,91,41,745	12 0		
Notes in circulation	223,82,63,967	0 0	Silver Bullion	Nil	6 0		
Total notes issued			Sterling Securities ...	38,75,19,293	7 7		
			Government of India Securities	13,97,49,931	8 4	90,63,01,833	
			India notes representing assets receivable from the Reserve Bank of India	29,98,90,862	4 9	1	
			B. Rupee Coin	5,28,97,353	3 0	11	
			Government of Pakistan Securities	136,29,10,734			
			Internal bills of exchange and other commercial paper	Nil			
			II. Held with the Reserve Bank of India pending transfer to Pakistan:—				
			Gold Coin & Bullion	19,02,101	12 3		
			Sterling Securities ...	3,06,12,327	13 7		
			Government of India Securities	70,10,326	3 5	4,24,75,376	
			Rupee Coin	29,50,620	9 1	6 4	
Total Liabilities ...			Total Assets			236,45,85,297	
						0 0	

NOTE:—(1) Ratio of Gold Coin and Bullion, Silver Bullion, Sterling Securities and approved Foreign Exchange to total notes issued 40.00 per cent.  
 (2) Gold to the extent of Rs. 4,20,71,400-0-11 has been valued at 0.349191 grams of fine gold per rupee (i.e. Rs. 21-3-10 per tola) instead of 0.268601 grams of fine gold per rupee (i.e. Rs. 43-6-10 per tola) as provided under Clause 23 (4) of the State Bank of Pakistan, Order 1948.

## BANKING DEPARTMENT

		ASSETS	
LIABILITIES		Rs.	As. Ps.
Capital paid up	...	3,00,00,000	0 0
Reserve Fund	...	3,00,00,000	0 0
Deposits:	...	...	1,622 0 0
(a) Central Government	...	18,62,93,114	2 8
(b) Provincial Governments	...	2,54,26,638	2 3
(c) Banks	...	15,47,49,511	3 3
(d) Others	...	2,53,91,489	11 5
Bills Payable	...	93,01,059	7 3
Other Liabilities	...	4,32,67,023	9 3
Total Liabilities	...	50,44,28,836	4 1
		ASSETS	
		Rs.	As. Ps.
Notes		...	12,63,21,330 0 0
Rupee Coin		...	1,622 0 0
Subsidiary coin		...	7,276 6 11
Bills Purchased and Discounted:—		...	...
(a) Internal	...	...	Nil
(b) External	...	...	Nil
(c) Government Treasury Bills	...	...	Nil
Loans and Advances to Governments	...	5,23,50,000	0 0
Provincial Governments' Debtor Balances	...	1,47,84,956	15 0
Other Loans and Advances	...	3,35,75,000	0 0
Investments*	...	17,89,66,787	5 8
A Other Assets*	...	9,84,21,863	8 6
Total Assets	...	50,44,28,836	4 1

NOTES:—\* These include Rs. 13,04,02,922-2-3 in our account with the Reserve Bank of India which has been valued at pre-devaluation parity pending the writing up of this account by the Reserve Bank of India in their books in terms of Clause VI of the Payments Agreement.

A.—This includes an amount of Rs. 3,88,80,871-11-3 debited to Suspense Account being the difference in exchange on remittances to India through our account with the Reserve Bank of India referred to in the above note and will be covered when this account is written up in terms of clause VI of the Payments Agreement with India.

## REPORT OF THE AUDITORS

## TO THE SHAREHOLDERS

## OF THE STATE BANK OF PAKISTAN

We, the undersigned Auditors of the State Bank of Pakistan, do hereby report to the Shareholders upon the Balance Sheet and Accounts of the Bank as at 30th June, 1954.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Directorate and of the Offices at Karachi, Dacca and Lahore 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. No provision has been made in the accounts for the difference in exchange amounting to Rs. 7,86,86,833/- in respect of the items referred to in the notes below the Banking Department Balance Sheet. Subject to this remark, in our opinion, the Balance Sheet is a full and fair Balance Sheet containing all necessary particulars 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.

Karachi, the 21st day of July, 1954.

A.F. FERGUSON & CO.  
PRICE WATERHOUSE PEAT & CO. } Auditors.  
RAHIM JAN & CO.



# STATE BANK OF PAKISTAN

## Profit and Loss Account.

	FOR THE YEAR ENDED					
	30th June, 1952		30th June, 1953		30th June, 1954	
	Rs.	As. Ps.	Rs.	As. Ps.	Rs.	As. Ps.
<b>INCOME</b>	2,17,76,313	12 11	3,25,46,931	11 1	3,34,90,534	13 1
Interest, Discount, Exchange, Commission, etc. ...	...	...	...	...	...	...
<b>EXPENDITURE</b>	47,78,720	9 1	55,11,942	15 8	57,81,908	15 3
Establishment	91,455	11 0	1,01,421	14 0	1,14,178	9 7
Directors' and Local Board Members' fees and expenses	8,000	0 0	8,000	0 0	8,000	0 0
Auditors' fees	1,84,316	0 0	1,96,251	12 1	1,52,337	8 2
Rent, Taxes, Insurance, Lighting, etc. ...	22,673	6 7	78,143	4 0	27,217	5 0
Law Charges	1,04,584	2 0	97,420	0 0	80,833	13 4
Postage and Telegram Charges	15,94,366	7 11	6,98,740	6 8	2,71,564	1 3
Remittance of Treasury	2,08,534	12 10	2,41,958	0 5	1,58,912	12 5
Stationery, etc.	42,01,081	0 0	42,10,376	5 3	36,00,000	0 0
Security Printing (Cheques, Note Forms, etc.)	2,63,865	12 8	2,64,292	13 5	4,07,021	5 9
Depreciation and Repairs to Bank's Property	12,95,407	3 5	8,16,089	3 11	9,11,571	3 5
Agency Charges	3,000	0 0	8,000	0 0	12,000	0 0
Contributions to Staff and Superannuation Funds	7,77,990	2 7	8,03,837	1 4	9,92,264	10 5
Miscellaneous expenses ...	...	...	...	...	...	...
Net available balance	82,42,318	8 10	1,95,10,457	14 4	2,09,72,724	8 6
<b>TOTAL</b>	2,17,76,313	12 11	3,25,46,931	11 1	3,34,90,534	13 1

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1954. (contd.)

	Rs.	As.	Ps.
Amount set aside for payment of dividend at the rate of 4% per annum	...	...	12,00,000 0 0
Amount transferred to the Reserve Fund	...	...	Nil
Surplus payable to the Central Government	...	...	1,97,72,724 8 6
	Balance carried forward	...	Nil
	TOTAL	...	2,09,72,724 8 6

## RESERVE FUND ACCOUNT

	Rs.	As.	Ps.
By balance on 30th June, 1954	...	...	3,00,00,000 0 0
By transfer from Profit and Loss Account	...	...	Nil
	TOTAL	...	3,00,00,000 0 0

MUHAMMAD GHOUSE MOHIADDIN,      SHER JANG KHAN,      ABDUL QADIR,  
*Chief Accountant.*      *Deputy Governor.*      *Governor.*

Dated the 21st day of July, 1954.



## APPENDIX.

## List of Scheduled Banks in Pakistan.

1. Allahabad Bank Ltd.
2. Australasia Bank Ltd.
3. American Express Co. Inc.
4. Bank of Bahawalpur Ltd.
5. Bank of China.
6. Bank of India Ltd.
7. Bank of Tokyo Ltd.
8. Bharat Bank Ltd.
9. Canara Bank Ltd.
10. Central Bank of India Ltd.
11. Chartered Bank of India, Australia and China.
12. Eastern Bank Ltd.
13. Grindlays Bank Ltd.
14. Habib Bank Ltd.
15. Hind Bank Ltd.
16. Hindustan Commercial Bank Ltd.
17. Imperial Bank of India.
18. Lloyds Bank Ltd.
19. Mercantile Bank of India Ltd.
20. Muslim Commercial Bank Ltd.
21. Metropolitan Bank Ltd.
22. National Bank of India Ltd.
23. National Bank of Pakistan.
24. Netherlands Trading Society.
25. Oriental Bank of Commerce Ltd.
26. Prabhat Bank Ltd.
27. Punjab and Sind Bank Ltd.
28. Punjab National Bank Ltd.
29. Southern Bank Ltd.
30. United Commercial Bank Ltd.
31. United Industrial Bank Ltd.
32. United Bank of India Ltd.





**STATE BANK OF PAKISTAN**  
**(CENTRAL DIRECTORATE)**

*Karachi, the 27th August, 1954*

**Notification.**

No. SY-2.—It is hereby notified that the 6th Annual General Meeting of the Bank will be held on Wednesday, the 15th September, 1954, at the State Bank of Pakistan, Dacca at 4-30 p.m. The following business will be transacted:—

- (i) The Balance Sheet as on the 30th June 1954, and the Profit and Loss Account of the Bank for the year together with the Auditor's Report will be read and considered.
- (2) The Auditors will be elected and their remuneration fixed. Messrs. A.F. Ferguson & Co., Messrs. Price Waterhouse Peat & Co., and Messrs. Rahim Jan & Co., the retiring Auditors being eligible, offer themselves for re-election, their remuneration being fixed at Rs. 3,000, Rs. 3,000 and Rs. 2,000 respectively.

**ABDUL QADIR,**  
Governor.

*Proceedings of the 6th Annual General Meeting  
of the shareholders of the State Bank of  
Pakistan held at the State Bank of  
Pakistan, Dacca on Wednesday  
the 15th September, 1954.*

The 6th Annual General Meeting of the Shareholders of the State Bank of Pakistan commenced at 4.30 P.M. The meeting was attended by 211 shareholders in person or by proxy.

Mr. Abdul Qadir, the Governor of the State Bank took the chair.

Mr. Said Ahmed, Secretary of the State Bank of Pakistan, read the notice convening the meeting.

2. The chairman addressed the meeting as follows:—

“The quorum being present, I declare this meeting duly convened.”

The Chairman then addressed the meeting as follows:—

“I welcome you to this 6th Annual General Meeting of the shareholders of the State Bank.

The first item on the agenda of today's meeting is the Accounts of the Bank and the Report of the Board for the year 1953-54. The printed copies of the Accounts and the Report are before you. I, therefore, request you to take them as read.

Our income and expenditure for the year amounted to Rs. 334.91 lakhs and Rs. 125.18 lakhs respectively leaving a net profit of Rs. 209.73 lakhs. The corresponding figures for last year were Rs. 325.47 lakhs, Rs. 130.37 lakhs and Rs. 195.10 lakhs.

As regards the balance sheet it is not necessary for me to deal with the variations in the figures from those of the last year. The Directors' Report before you adequately covers this ground.

I, therefore, propose to begin with a brief review of the outstanding developments in our economy in the perspective of the world economic trends during the year. Though considerable diversity in economic conditions among groups of countries characterised the period under review, notable progress was made towards a better balance in the world economy. This was reflected in the over-all stability of the price level in many countries and the approach towards equilibrium in international payments. Recessionist trends appeared in the U.S.A. while there was a perceptible slackening of the boom conditions in Canada. However, it was a singular phenomenon that this slackening of American activity did not sharply affect production and employment in other countries where, indeed, a remarkable growth was registered, particularly in Western Europe. As a result, over-all world production and trade volume attained high levels during the year. This was partly explained by the continuance of American military and economic aid at levels sufficiently high to offset any decline in American imports and to the fact that even in recession, economic activity in U.S.A. stood at fairly high, if declining, levels. The main factor, however, in the resistance of the non-dollar world to the recessionist pressure from U.S.A. was to be found in the rapid growth of employment and production, the control of inflationary pressure and the growth of trade among countries outside the dollar area. The improvement was best reflected in the growth of monetary reserves outside the U.S.A. In the sterling area an improvement of \$ 650 million brought the central reserves to a peak of \$ 3,017 million by the end of the year under review. This greatly helped to reinforce the movement towards convertibility.



Another contrasting feature in the world economy during the year was the subdued state of commodity markets despite high levels of production and employment in industrialised countries. The pressure on raw material producers, therefore, continued unabated and even intensified in respect of several commodities, including cotton and wheat. Heavy surpluses resulting from production increases initiated during the Korean boom over-hung markets while a slackening of international political tension and uncertainties regarding American economic prospects and policies also tended to depress the market sentiment. Some commodities however fared better due to factors such as short-crops, the lifting of restrictions on consumption or exceptional purchases by communist countries. But this, however, only served to conceal the full impact on commodity price indices of a decline in the case of several industrial raw materials and foodstuffs.

The economic situation in Pakistan recorded improvement and a higher level of activity during the year. Commodity markets showed greater resilience to the downward trend though they continued to remain subdued due to the operation of international factors. Attempts to bring about an equilibrium between domestic production and reduced level of world demand yielded satisfactory results, particularly in the case of jute. The increase in home consumption of raw materials was another favourable factor. The cultivated area under jute was restricted by about 60% so that the yield in 1953-54 was of the order of 37 lakh bales as compared to 68 lakh bales last year. This combined with the carry-over stocks of 28 lakh bales resulted in an effective supply of 65 lakh bales, bulk of which had been disposed of by the close of the year under review. Acreage under cotton was also reduced as part of the grow-more-food campaign, so that the yield was only a little more than 14 lakh bales as compared to 18 lakh bales last year. The price situation was, however, not so happy. Despite considerably reduced production, the raw jute market

was far from firm due to the good stock position of raw jute with mills, slow pace of foreign buying and extreme price sensitivity of foreign buyers. In the case of cotton, considerably increased local mill off-take and heavy foreign buying imparted strength to the market soon after the commencement of the new cotton season. The position of desi varieties was particularly strong so that it was possible to re-impose export duty on desi cotton. The sentiment, however, could not be maintained in the last quarter of the year when prices sagged due to reduced foreign buying interest, slackening in domestic mill demand and prospects of major changes in American policy to facilitate the disposal of her farm surpluses.

There was a decline in the export volume of both cotton and jute as compared to the previous year due to lower production and increase in home consumption. Thus raw cotton exports in 1953-54 amounted to 11.71 lakh bales only as compared to 15.06 lakh bales in the previous year. Jute exports at 51.2 lakh bales in 1953-54 were also lower by about one and a half lakh bales. Decline in quantities exported adversely affected the value of exports which stood at Rs. 128.6 crores in 1953-54 as compared to Rs. 151.0 crores in the previous year. As the level of foreign exchange earnings was low the restrictive import policy had to be continued in general though slight liberalisations were effected in the case of certain essential articles. Imports on private account came down by Rs. 47.96 crores to Rs. 73.45 crores during the year and this was the main factor in narrowing down the deficit in the country's balance of payments from Rs. 40.79 crores in 1952-53 to a small sum of Rs. 2.79 crores during 1953-54.

The food situation which had caused grave concern in the previous year and had also been a source of great pressure on the country's balance of payments underwent considerable improvement during the year due to the inflow of American wheat



and the success of the grow-more-food campaign. Both wheat and rice recorded an increase in production. Indeed, in the case of rice there was an exportable surplus. Prices of foodgrains have, therefore, shown an almost continuous decline and several food distribution control and economy orders have been rescinded. This is a refreshing contrast to the strict system of controls that operated during the greater part of the previous year.

While food prices were on the decline, the prices of imported consumer goods continued to rule at a rather high level due to their restricted availability. The swiftly increasing industrial production inside the country tended to provide some relief in this direction; it could not possibly make up the entire deficiency. Cost of living in the country was, therefore, subject to contradictory influences of rising consumer goods prices and falling food prices. Prices of consumer goods will remain high so long as a sufficient supply of goods is not available. Price control measures that are in operation at the present time cannot provide a permanent solution to the problem. The greatest hope of relief lies, of course, in a rapid extension of domestic production. It is satisfying to note, therefore, that economic development in the country is gaining momentum and important results have already been achieved in a number of industries. Fiscal incentives to private enterprise in the field of industry are being continued to encourage maximum developmental activity in the private sector while direct government outlay on development is also increasing year by year. These measures are intended to impart greater balance and stability to the economy and are also expected to prove of great help in ultimately reducing the pressure on the country's balance of payments.

Another salient feature of the year was the very encouraging response to the equity issues of industrial concerns. During the year several indus-



trial undertakings issued their share capital and most of these issues were over-subscribed. This shows that a highly favourable climate exists in the country for private investment in industry and indigenous capital now is not so shy of industrial investment as it was known to be previously. It also shows that the average citizen is becoming increasingly investment minded; this is a happy augury for the country's economic development.

On this occasion last year, I had drawn attention to the inflationary pressure in the economy. Since then there has been an increase in the aggregate money supply in the country while there has been a further decline in the supply of consumer goods. Money supply which stood at Rs. 344.77 crores at the beginning of the year under review recorded an increase of Rs. 21.83 crores to stand at Rs. 366.60 crores at the end of June, 1954. This compared with an increase of Rs. 10.27 crores in the previous year. Though domestic production of certain consumer goods has increased rapidly during the last year this could not possibly make up the entire deficiency resulting from reduced imports. On the other hand, it is quite likely that a certain amount of dis-saving has been taking place specially in the rural areas due to the low level of agricultural prices and incomes and the rising price level of consumer goods. This perhaps means that the increase in effective money demand is far more serious than is indicated by the net rise in the money supply during the year and as such is deserving of the most serious consideration.

The State Bank on its part has kept a vigilant eye on the situation. Careful consideration has been given to the matter whether in view of the recent trend in money supply it would be necessary and desirable to impose any restrictive credit measures. Such measures are warranted when banks are indulging in excessive credit creation or when their operations are inordinately increasing the country's

money supply. Though bank credit increased by Rs. 13.32 crores in 1953-54 as against a decline of Rs. 12.44 crores in the previous year, the magnitude of this increase cannot be considered excessive if viewed in its proper economic back-ground. The decline in bank credit that took place in 1952-53 was the outcome of a set of factors that characterised the economic situation at that time such as the sharp fall in the volume of imports and the purchase of large stock of jute and cotton by Government. With the recovery in export markets, revival of import licensing activity and higher domestic production, some increase in bank credit was natural. A rise in bank credit, provided it is in accordance with the genuine needs of trade, industry and commerce is not a disturbing phenomenon. It is only when bank credit is extended in excess of the genuine requirements of the economy, such as for speculative purposes or over-financing, that it could be argued that banks were contributing inordinately towards the increase in money supply. Our banks have generally followed cautious lending policies and have refrained from lending their funds for speculative purposes. There are no grounds, therefore, for restricting credit or curbing the banks in their present lending policies.

Some might say that even though the credit operations of the banks have not been responsible for inflationary tendencies in the economy restrictive credit control measures should be adopted to disinflate the economy. On closer examination, however, such a course would appear to be undesirable inasmuch as it would reduce credit facilities. In our conditions, reduction in credit facilities below a certain point is likely to give rise to a number of bottlenecks in production and distribution which may well frustrate the anti-inflationary objective instead of achieving it. In fact, instead of restricting credit there is urgent need for expansion of credit facilities in certain sectors of the economy in order to step up production and counter inflation. Though



trends in the economy so far have not warranted the use of restrictive credit control measures, I wish to assure you that constant watch is kept over the situation and the State Bank will not fail to act whenever necessary.

With the progress of industrialisation in the country the need for industrial finance has been rapidly growing. Recent developments have provided a distinct stimulus to industrial activity in the country. The severe import cuts resulting as they have in shortages and high prices have provided a sheltered market for some domestic products. The grant of protection to a number of industries and the provision of several financial and fiscal inducements for the initiation of and participation in industrial undertakings have also helped the process of industrialisation. On the one hand, a large number of new industrial enterprises have come into being and on the other the industries which were already in existence have extended the scale of their operations in recent months. All this is leading to a steady increase in the demand for industrial finance.

On the supply side, however, it is evident that the industrial finance facilities in Pakistan compare very unfavourably with advanced countries. In most developed countries it is not difficult for industries to raise their block capital through the issue of shares and debentures while their other capital requirements are adequately met by the commercial banks or specialised institutions for the purpose. In Pakistan, however, even major industries experience difficulties in obtaining sufficient finance as the facilities provided by the existing agencies fall far short of the genuine needs of the country. Small scale industries experience even greater difficulties mostly because they are unable to offer such security to the lending institutions as may be readily acceptable.

The problem of providing our industries with adequate working capital is no less important



than that of raising block capital. Working capital is required both for short periods and for medium and long terms. The chief agencies that are catering to working capital requirements of industries in the country are the commercial banks, co-operative banks, provincial government departments, insurance companies, Pakistan Industrial Finance Corporation and certain private sources. The Pakistan Industrial Finance Corporation has only limited resources at its command. As for the commercial banks, bulk of their working capital is made up of deposits—mostly demand deposits—which they cannot afford to lock up for long periods. Loans and advances made by them are, therefore, necessarily of a short term character. Apart from this the amount advanced by them is scarcely a fraction of the aggregate industrial finance requirements of the country. An active participation by the co-operative banks in this sphere does not seem desirable if for no other reason than the fact that it could well lead to the neglect of agricultural finance—a field to which the co-operatives belong. Insurance companies being required by law to keep bulk of their investments in the form of trustee securities are unable to figure prominently as institutional investors. Private sources are obviously inadequate and undependable while government departments have limited resources and as such cannot be expected to provide much assistance in this regard.

It appears, therefore, that industrial financial facilities in the country are not only inadequate but are likely to remain so even in the future unless some specialised institutions are set up to cater to this demand. We have before us instances of many foreign countries where specialised institutions of industrial credit have played and are playing an important role in meeting the requirements of industry. I have no doubt that the need for such an institution in Pakistan is urgent.

As to agricultural finance the State Bank has been strengthening its organisation to study and

analyse the problems of agricultural credit with a view to determining how best it could contribute towards the solution of this vital problem. We are thankful to the Foreign Operations Administration of the United States of America for lending us for one year the services of a Farm Credit Adviser who arrived in this country in May, 1954. We are also grateful to the Egyptian Government for lending us the services of the President of the Credit Agricole who will be spending about three months in the country. I am sure that the country will benefit by their valuable advice and guidance in this important task.

While reviewing economic conditions, I made a passing reference to our balance of payments. I feel I must deal with the subject in some detail as it is of vital importance and has greatly exercised our minds in recent years. Although the heavy deficits of the previous years have been eliminated and 1953-54 ended with an over-all deficit on current account of Rs. 2.79 crores only, the underlying trends give cause for anxiety. In the first place the deficit has been controlled only by a severe curtailment in payments which at Rs. 144.93 crores were Rs. 47.86 crores lower compared with 1952-53. Secondly there was a simultaneous fall in the country's foreign exchange receipts to the extent of Rs.9.88 crores. In 1953-54, total receipts were down to Rs. 142.14 crores compared with Rs. 152.10 crores in the preceding year and a peak of Rs. 247.16 crores in 1950-51. It is this continuous decline in the foreign exchange receipts over the past four years which constitutes one of the main problems of our economy.

This decline has occurred at a time when the country is undertaking a large development programme, entailing heavy expenditure of foreign exchange. International political tensions necessitate that the level of military preparedness be maintained and for this purpose purchases of stores for defence purposes must continue. Further, since the



country lacks well developed service organisation; a heavy liability must persist at least in the short run for payments to foreigners for services rendered by them to us in such fields as shipping, banking, insurance, education, travel and investment. Moreover, as industrial activity in the country picks up as a result of development, supplementary requirements of foreign exchange arise for spare parts, fuels, industrial raw materials and profit remittances. Thus the amount which remains for meeting the essential requirements of consumption progressively diminishes, resulting in shortages of consumer goods and rise in prices. The payments for commercial imports during 1953-54 stood at Rs. 73.45 crores only as against Rs. 121.41 crores in the preceding year and a peak of Rs. 192.67 crores in 1951-52.

The need to restrict payments in coming years well within estimated current earnings is also underlined by the decline in the country's gold and foreign exchange reserves. At the end of June, 1954, reserves had reached a low point of Rs. 63.05 crores compared with a peak of Rs. 151.31 crores at the end of 1951. The decline of reserves to this unduly low level has serious implications for the country's economy and particularly for its development programme. The economy is more vulnerable to the impact of domestic agricultural conditions which may adversely affect export production or external shocks derived from changes in the world markets. Unless adequate foreign exchange reserves are available for cushioning the impact of reduced earnings in periods of recession it becomes difficult, if not impossible, to maintain a high level of investment in the country, to bear the financial burden of a large development programme and simultaneously ensure stability in the consumption sector by allowing a steady flow of essential consumer goods. In under-developed countries like ours, changes in the foreign trade sector play a vital role in determining the level of national income, the rate of savings, capital formation and in the ultimate

analysis, the tempo of economic development. A depletion of foreign exchange reserves has an even more direct bearing upon the financing of economic development. Theoretically, any development programme is inflationary in the short run and the inflationary potential is increased if deficit financing is adopted as a means of financing the programme. If reserves are adequate, such inflationary pressures can be powerfully counteracted through liberal import programme. In their absence, either the rate of development has to be reduced or increasing reliance placed on foreign aid and loans for financing capital development in the country.

The fundamental answer to our foreign exchange problem is to achieve an expansion of our earnings as will enable the required minimum supplies of capital and consumer goods to flow into the country so as to ensure that economic development proceeds rapidly in the framework of economic stability. Several measures have been adopted over the years to expand and diversify the country's exports. As industrialisation proceeds additional sources of exchange earnings such as jute manufactures, cotton piece-goods and paper will substantially contribute to our earnings.

Among the measures which have been suggested for stimulating exports, there has often been mention of a possible re-adjustment of the exchange rate. Those who advocate this policy do not seem to appreciate that Pakistan being a raw material producing country and demand and prices of our export products being determined largely by world factors outside our control, an increase in exchange earnings from exports of raw materials could not result from a lowering of the exchange rate. It deserves emphasis that it is the subdued state of international markets for our major export products that has resulted in the decline of our earnings. The recessionary tendencies have affected raw material producing countries generally. A



simple lowering of the external value of our currency would not, therefore, help us in the matter of our exports particularly when it is realised that our export prices have remained fully competitive. Moreover, devaluation would result in increasing all import costs, thus seriously jeopardising development both in the public and the private sector. Devaluation would also increase the cost of living in the country and reinforce inflationary pressure in the economy. The present economic situation in the country which is characterised by an acute scarcity of consumer goods, growing inflationary pressure and increasing demand for imported capital goods justifies the continuance of the existing policy. I hope that this reference to the important considerations which have operated behind our exchange rate policy will set to rest any possible misgivings concerning our exchange rate.

It is also sometimes argued that the rate of exchange at which some foreign exchange transactions are illegally made reflects on the validity of the official rate. This is not correct. It cannot be over-emphasised that unofficial rates prevailing in black markets are nowhere representative of real conditions. In any case the bulk of transactions are carried out at the official rate and it is only the transactions in smuggled goods and smuggled money which give rise to a free market. Black markets are the inevitable adjunct of any control system which is set up to ration scarce supplies among competing requirements. Exchange control must necessarily deny many requests for foreign exchange which are not considered sufficiently essential to be provided for within the available supplies of foreign exchange. Indeed, the more effective exchange controls are in mobilising foreign exchange earnings, the greater is the pressure on black market rates of exchange. I emphasise this point mainly to dispel the impression that the existence of free market exchange rates is a phenomenon peculiar to Pakistan or that it affects in some unfavourable way the

validity of the official rate of exchange.

The existence of black markets in foreign exchange is a reprehensible phenomenon. Those who participate in black market transactions of foreign exchange should be regarded as public enemies as their activities are unpatriotic, illegal and immoral. While the law of the country can be and is used as a weapon to curb such anti-social activities the pressure of public opinion can also act as a powerful force in eradicating such evils from our society. Loyal and patriotic citizens should not therefore tolerate such anti-social activities.

In reviewing some of the problems which are of direct concern to the State Bank, I have endeavoured to present realistically the situation which faces us today. It should, however, be realised that these problems are the inevitable accompaniments of any process of transition from the poverty stricken state of a raw material producer to a more balanced economy. We must strive today for economic development, secure in the confidence that we are building for a better future. Indeed the sacrifices that we have to make should be taken as a challenge to the inner resources and vigour of our people. Looking around me at the great courage and determination with which the people in East Bengal are fighting one of the greatest natural calamities that has befallen the country, I have no doubt that the challenge shall be fully met."

3. At the conclusion of his speech the Chairman invited questions on the Annual Report and Accounts of the Bank.

As no questions were asked the Chairman<sup>1</sup> declared that the consideration of the accounts had concluded.

4. The Chairman then proceeded to the next item on the agenda, viz., the election and remuneration of the Auditors for the year 1954-55.



Director Hatim A. Alavi moved the following resolution which was seconded by Director Muhammad Ismail.

# RESOLVED

That (a) Messrs A. F. Ferguson & Co., (b) Messrs Price Waterhouse Peat & Co., and (c) Messrs Rahim Jan & Co., be reappointed as Auditors of the Bank for the current year and be allocated the Bank's offices at Karachi, Dacca and Lahore respectively for local audit, all the three firms jointly reporting to the Shareholders on the Bank's Balance Sheet and Profit and Loss Account and that their remuneration be fixed at

M/s A.F. Ferguson & Co.	Rs. 3,000/-
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M/s Price Waterhouse Peat & Co.	Rs. 3,000/-
---------------------------------	-------------

M/s Rahim Jan & Co.	Rs. 2,000/-
---------------------	-------------

which is the same as was fixed last year.

The resolution was carried.

5. Qazi Ashruff Hossain, a shareholder of the bank moved a vote of thanks to the Chairman which was seconded by another shareholder Mr. Mohiuddin Ahmed. The motion was passed unanimously.

Thereafter the proceedings terminated.







