

# ANNUAL REPORT

1956—57



STATE BANK OF PAKISTAN



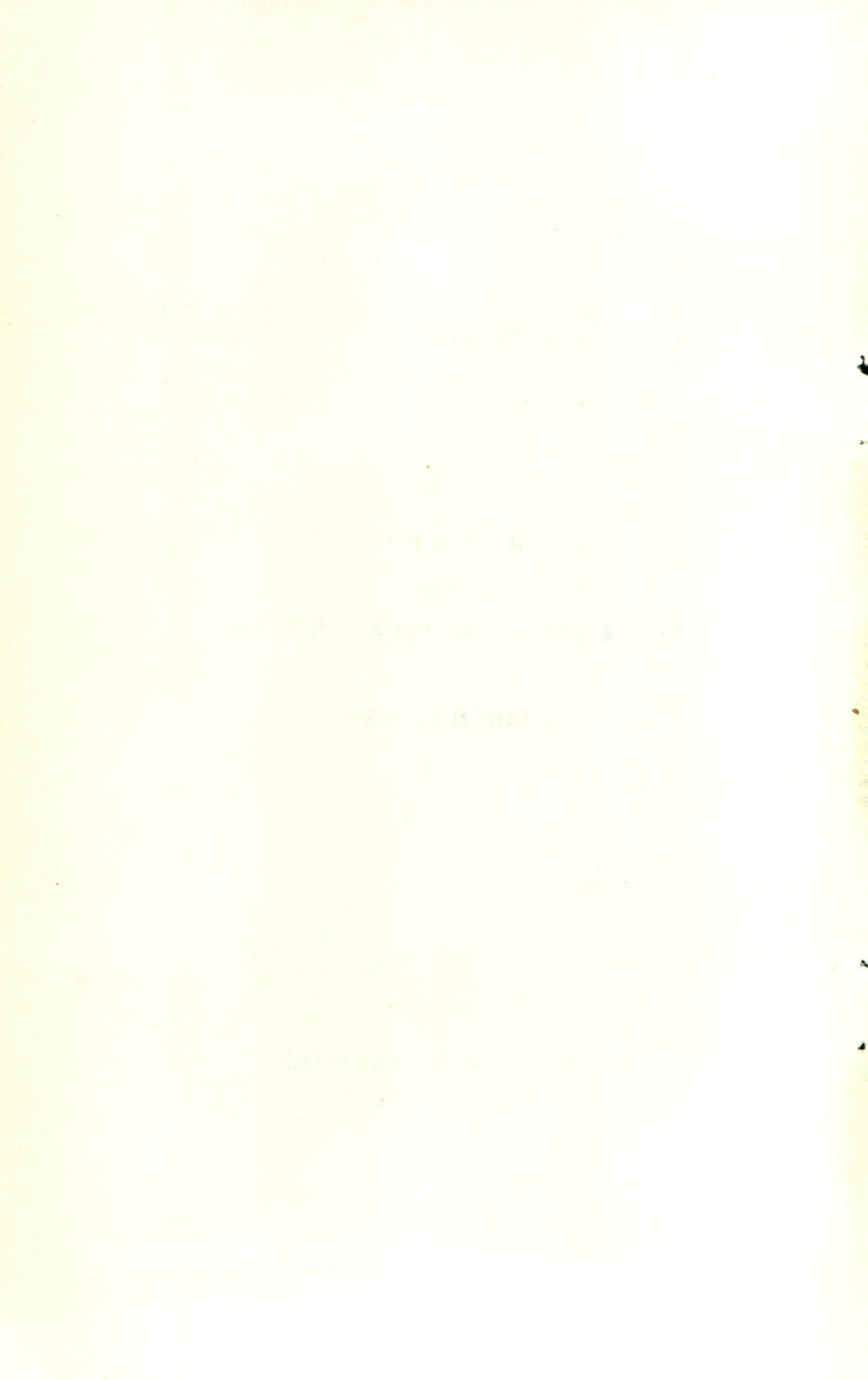




Pres - State Bk of Pakistan - Jan. 2 '58

**REPORT**  
**OF THE**  
**NINTH ANNUAL GENERAL MEETING**  
**OF**  
**SHAREHOLDERS**

**STATE BANK OF PAKISTAN**  
*7th September, 1957*





## CENTRAL BOARD OF DIRECTORS

(As on 30th June, 1957)

ABDUL QADIR, ESQR.

*Chairman*

SHER JANG KHAN, ESQR.

VAQAR AHMAD, ESQR.

SIR SYED MARATIB ALI SHAH.

MOHD. ALI KHAN, ESQR.

MUHAMMAD ISMAIL, ESQR.

JNANENDRA NATH DUTTA, ESQR.

KASIM DADA, ESQR.

HATIM A. ALAVI, ESQR.

K. B. MALIK NOOR MOHD. KHAN.

WAHIDUZZAMAN, ESQR.

A. K. NAZIRUDDIN AHMED, ESQR.

*Secretary*

## OFFICES OF THE BANK

Karachi	Issue and Banking Departments.
Lahore	Issue and Banking Departments.
Peshawar	Issue and Banking Departments.
Quetta	Banking Department.
Dacca	Issue and Banking Departments.
Chittagong	Banking Department.
Khulna	Banking Department.
Lyallpur	Banking Department.

# REPORT OF THE CENTRAL BOARD OF DIRECTORS OF THE STATE BANK OF PAKISTAN FOR THE YEAR ENDED 30TH JUNE, 1957.

## INTRODUCTION

In accordance with the provisions of Sub-Section (2) of Section 16 of the State Bank of Pakistan Act, 1956 the Central Board of Directors presents to the shareholders this Annual Report and Accounts of the Bank for the ninth year ended 30th June, 1957.

## ANNUAL ACCOUNTS

2. The Profit and Loss position of the Bank for the year 1st July, 1956 to 30th June, 1957 is summarised below:

	Rs.	As.	Ps.
Gross earnings of the Bank	5,32,42,876	9	3
Total expenditure covering administrative charges, contingencies and other sundry expenses	1,88,84,853	6	2
Net Profit	3,43,58,023	3	1
Amount payable to shareholders as dividend at the rate of 5% per annum	15,00,000	0	0
Surplus payable to the Government	3,28,58,023	3	1



The net profit has recorded an increase of Rs. 1.29 crores over the previous year, due mainly to the increase in interest on our holdings of Sterling and Pakistan Securities. The increase in the total expenditure from Rs. 1.62 crores during the year 1955-56 to Rs. 1.89 crores in the year 1956-57 is mainly under the heads "Establishment" and "Security Printing (Cheques, Note forms, etc.)". The increase under "Establishment" is on account of the expansion of various departments of the Bank, grant of annual increments, payment of ex-gratia allowance to the staff and opening of a new branch of the Bank at Lyallpur. The rise in expenditure under the head "Security Printing (Cheques, Note forms, etc.)" is due partly to the rise in the printing charges of notes and partly to the increased printing of notes to meet additional demand for currency.

The rate of dividend this year has been raised to 5% as against 4½% last year. This increase in the rate of dividend has been made under the provisions of Section 42 of the State Bank of Pakistan Act, 1956.

#### APPOINTMENT OF AUDITORS

3. The Accounts of the Bank have been audited by Messrs. Ford, Rhodes, Parks & Company of Karachi, Messrs. Price Waterhouse Peat & Company of Dacca and Messrs. Rahim Jan & Company of Lahore, who in accordance with Sub-Section 1 of Section 43 of the State Bank of Pakistan Act, 1956 were elected auditors of the Bank by the shareholders at their meeting held at Lahore on the 7th September, 1956.

#### CONSTITUTION OF THE CENTRAL BOARD OF DIRECTORS

4. In addition to the Governor and the Deputy Governor, the Central Board of Directors consisted of the following at the beginning of the year:—

- |   |  |
|---|--|
| 1. Mr. Hatim A. Alavi,<br>Karachi Area.   | } Elected under<br>Section 9 (2)<br>(d) of the State<br>Bank of Pakistan<br>Act, 1956.                                   |
| 2. K.B. Malik Noor Muhammad<br>Khan,<br>Lahore Area.  |  |
| 3. Mr. Wahiduzzaman,<br>Dacca Area.   |  |
| 4. Mr. M.A. Mozaffar,<br>5. Sir Syed Maratib Ali Shah,<br>6. Mr. Muhammad Ali Khan,<br>7. Mr. Muhammad Ismail,<br>8. Mr. Kasim Dada,<br>9. Mr. J. N. Dutta. | } Nominated by<br>Central Govern-<br>ment under Sec-<br>tion 9 (2) (c)<br>of the State Bank<br>of Pakistan Act,<br>1956. |

Mr. M. A. Mozaffar continued as Government Director until 4th October, 1956 when Mr. Vaqar Ahmed, Joint Secretary to the Government of Pakistan, Ministry of Finance, was nominated in his place.

#### CONSTITUTION OF THE EXECUTIVE COMMITTEE

5. The Executive Committee consisted of the following members in addition to the Governor and Deputy Governor:—

- |                        |                    |
|------------------------|--------------------|
| 1. Mr. M.A. Mozaffar,  | Government Member. |
| 2. Mr. Hatim A. Alavi, | Karachi Area.      |



3. Sir Syed Maratib Ali Shah, Lahore Area.
4. Mr. Muhammad Ismail. Dacca Area.

On 24th September, 1956 Mr. Vaqar Ahmed was nominated as a member of the Executive Committee in place of Mr. M. A. Mozaffar.

#### MEETINGS OF THE CENTRAL BOARD AND ITS EXECUTIVE COMMITTEE

6. During the period under report 14 meetings of the Central Board were held while there were 18 meetings of the Executive Committee.

#### LOCAL BOARDS

7. The Central Government made fresh nominations to the Local Boards on the 10th September, 1956. The following Members were nominated to the Local Boards for the areas specified against them:—

- |                                       |                 |
|---------------------------------------|-----------------|
| 1. Khan Bahadur Haji Wajihuddin,      | } Karachi Area. |
| 2. Mr. Ahmad Dawood,                  |                 |
| 3. Pir Mohammad Mahfooz.              |                 |
| 1. Sheikh Zahur Ahmed,                | } Lahore Area.  |
| 2. Dr. Muhammad Sharif Muttaqi.       |                 |
| 3. Khan Bahadur Kuli Khan.            |                 |
| 1. Lt. Col. Dr. Mohammad Nural Ameen, | } Dacca Area.   |
| 2. Babu Upendra Nath Mallick,         |                 |
| 3. Mr. Syed Ehsan Kabir.              |                 |

The Board regrets to record that Khan Bahadur Kuli Khan, nominated member of the Local Board Lahore Area,



passed away on the 22nd December, 1956. In his place Mian Abidul Haq was nominated on the 22nd April, 1957.

#### OPENING OF A BRANCH AT LYALLPUR

8. A branch of the State Bank was opened at Lyallpur on 7th December, 1956. The new branch has somewhat relieved the congestion in the vaults at Lahore and Peshawar Offices besides meeting the growing requirements of the area which is fast developing due to industrialisation. The branch at present serves the currency chests in the Lyallpur district.

#### TRAINING SCHEME FOR BANK OFFICIALS

9. The scheme for training young graduates for supervisory posts first introduced by the Bank in 1954 in collaboration with the National Bank of Pakistan, the Habib Bank and the Muslim Commercial Bank was continued last year. Of the 106 candidates selected, 74 candidates appeared for the examination in the month of January, 1957. Thirty-eight candidates qualified at the examination and have been posted to the participating banks where they will be absorbed on the successful completion of their training. Of the 36 remaining candidates, 32 have been allowed to continue their training for a further period of 5 months after which they will be re-examined in August, 1957.

Arrangements are already underway for recruiting a fresh batch of trainees. The Agricultural Bank and the Agricultural Development Finance Corporation will also participate in the Scheme.

## FOREIGN TRAINING

10. The Bank continued to avail itself of foreign training facilities offered by various technical assistance agencies. During the year three fellowships were awarded under the United Nations Technical Assistance Programme to officers of the Bank for study of Industrial Banking, Central Banking Operations and Exchange Restrictions. A Fellowship for training in Agricultural Credit under the I.C.A. programme was also utilised by the Bank during the year.

An important development in regard to the foreign training facilities available for the Bank's staff was the institution of a Central Banking course sponsored by the Central Banks of Australia, Ceylon, India, New Zealand and Pakistan. This course will provide intensive training in all aspects of central banking to officers likely to work in senior executive positions. Apart from the sponsor banks other Commonwealth and Colombo Plan countries have been invited to nominate officers for training. The first course will be held in Sydney from 5th September, 1957 and will be of about 13 weeks' duration. The State Bank has nominated three officers for training at the first course.

The Bank of England sponsored a six weeks' Central Banking course in April 1957 for senior officials of Commonwealth Central Banks. An officer of the State Bank attended this course.

Eight seats have been secured this year for training in commercial banks in U.K. Six candidates have already



been selected, one from the Habib Bank, two from the National Bank of Pakistan, two from the Sind Provincial Cooperative Bank, and one from the State Bank of Pakistan. The training will commence shortly.

#### BUILDING PROJECTS KARACHI

11. The foundation stone of the main building on McLeod Road was laid by the President, Major General Iskander Mirza, on 8th March, 1957. The construction is now in progress.

The construction of seven blocks containing 86 residential flats on Preedy Street for Officers Class I & II has been completed and these have been occupied.

The construction of 96 quarters for clerks and 48 quarters for peons was started in the month of October, 1956 in North Nazimabad Area. The work is expected to be completed by the end of 1957. Plans have also been approved for constructing on the same site flats with hostel accommodation for 50 clerks.

The construction of 4 flats for Senior Officers on Queens Road has started and it is expected that the flats will be ready for occupation by the end of 1957.

A plan for constructing two semi-detached bungalows on Queens Road has also been approved and construction will start shortly.

The construction of a sub-office building on Kingsway has also commenced. This office is primarily intended to provide facilities to the various Government departments



located in this area. The sub-office will relieve the pressure on the Karachi Office.

#### LAHORE

Land is being acquired in Gulbarg Scheme No. 3 of the Lahore Improvement Trust for construction of quarters for the Bank's staff.

#### DACCA

Most of the preliminaries such as acquisition of land and the selection of an architect for the construction of a new Bank building in the New Commercial Area, have been finalised.

It has been decided to construct 24 additional flats for clerks and 8 for officers.

#### KHULNA

A plan for the construction of a new Bank building has been approved and action is being taken to start its construction.

Land has been acquired and plans are being finalised for constructing quarters for the Bank's employees.

#### WELFARE ACTIVITIES

12. During the year under review the Bank continued to finance the welfare activities at various centres and a sum of Rs. 6,570 was paid for the purpose.

Medical dispensaries were established at the Bank's staff quarters at Motijheel, Dacca, Agrabad, Chittagong and Preedy Street, Karachi.

Ex-gratia payment at the rate of half a month's salary was made at the time of Eidul Fitr and Eidul Azha to the staff and officers drawing pay upto Rs. 1000. A scheme for the award of scholarships to the children of Bank's subordinate staff has been approved. A Fund of Rs. 10,00,000 has been created for the purpose.

#### BANKING DEPARTMENT

13. The balance sheet as at 30th June, 1957 and the Profit and Loss Account of the Bank for the year ended 30th June, 1957, appear on pages 46-49. 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 increased from Rs. 25.05 crores on the 30th June, 1956 to Rs. 62.28 crores on the 30th June, 1957. The latter figure included counterpart rupee funds under the U.S. aid programme of the order of Rs. 60.65 crores as against Rs. 16.04 crores on 30th June, 1956. The net Central Government deposits, therefore, registered a decline of Rs. 7.37 crores over the year. The deposits of the Provincial Governments decreased from Rs. 8.23 crores on the 30th June, 1956 to Rs. 5.06 crores on the 30th June, 1957 showing a net decrease of Rs. 3.17 crores over the figures of the previous year. The deposits maintained by banks also decreased from Rs. 27.49 crores on the 30th June, 1956 to Rs. 16.10 crores on the 30th June, 1957. However, in the aggregate, throughout the year the deposits of the Scheduled Banks remained considerably above the statutory minimum limit prescribed under Section 36 (1) of the State Bank of Pakistan Act, 1956.



## ISSUE DEPARTMENT

14. The balance sheet of the Issue Department as on 30th June, 1957 is reproduced at pages 44-45 of the report. A comparison of this balance sheet with that as at the 30th June, 1956 shows that the total note issue has risen from Rs. 296.02 crores as on the 30th June, 1956 to Rs. 331.85 crores on the 30th June, 1957 as a result of increased demand for currency. On the assets side, the figure under the head "Gold Coin and Bullion" has remained unchanged at Rs. 11.33 crores on the 30th June, 1957. Our holdings of approved foreign exchange which were being shown under the heads "Sterling Securities" and "Government of India Securities" have now been grouped under the head "Approved Foreign Exchange". The figure under this head stood at Rs. 85.92 crores as against the combined figure of Rs. 113.34 crores under the heads "Sterling Securities" and "Government of India Securities" as appearing in our statement as on 30th June, 1956. The decrease of Rs. 27.42 crores is mainly due to the decline in foreign exchange assets consequent upon the balance of payments deficit. The figure under 'India Notes representing assets receivable from the Reserve Bank of India' as under "the Balances held by Reserve Bank of India pending transfer to Pakistan" decreased from Rs. 48.93 crores to Rs. 48.92 crores on account of adjustment of deficiencies detected in India note balances in the course of the detailed examination of these balances by the Reserve Bank of India. The Government of Pakistan securities increased from Rs. 115.63 crores to Rs. 180.05 crores due mainly to the creation of ad hoc treasury bills by Government. These were initially held in the Banking Department and were later transferred from Banking



Department to Issue Department. The ratio of Gold Coin and Bullion, Silver Bullion and Approved Foreign Exchange to total notes issued was 43.96 per cent on the 30th June, 1957 as against 58.55 per cent on the 30th June, 1956. 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 Rs. 176.75 crores out of which assets for Rs. 127.67 crores only have so far been received by the State Bank of Pakistan. Reserve Bank of India have not yet transferred the remaining portion of the assets to the State Bank of Pakistan.

During the year under review the Government of Pakistan revived the exchange facilities in respect of Inscribed Pakistan notes for a period of one year from 1st October, 1956 to 30th September, 1957 in terms of Ministry of Finance's Notification No. F. 9 (30) IF. II/51 dated the 5th October, 1956. The holders of these notes are now able to exchange them at the offices of the Bank subject to the conditions laid down in the above notification. The Government of Pakistan notes of the denominations of Rs. 10 and Rs. 100 ceased to be legal tender as from the 1st August, 1956. However, these notes will, until further orders, be accepted for exchange as usual at offices, branches and agencies of the State Bank.

#### AD HOC TREASURY BILLS

15. During the year under report net increase in the ad hoc treasury bills created by the Government was Rs. 70 crores against Rs. 25 crores during the corresponding period last year. Total outstandings of such

Treasury Bills amounted to Rs. 110 crores on 30-6-57 as indicated below:—

Amount outstanding at 1-7-1955	..	Rs. 15 crores.
Created during 1955-56	..	Rs. 30 „
		<hr/>
		Rs. 45 „
Cancelled during 1955-56	..	Rs. 5 „
		<hr/>
Outstanding at 30-6-56	..	Rs. 40 „
Created during 1956-57	..	Rs. 95 „
Cancelled „ 1956-57	..	Rs. 25 „
		<hr/>
Outstanding at 30-6-57	..	Rs. 110 „
		<hr/>

#### COINAGE

16. During the year 1956-57 only two-anna and half-anna new design coins were issued.

Total Rupee coins in circulation amounted to Rs. 5.78 crores on the 30th June, 1957 as against Rs. 5.95 crores on the 30th June, 1956. One Rupee Notes in circulation as on the 30th June, 1957 amounted to Rs. 12.27 crores as against Rs. 10.94 crores on the 30th June, 1956.

As regards Subsidiary Coins (coins of denominations less than Re. 1/-) their circulation amounted to Rs. 9.87 crores on the 30th June, 1957 as against Rs. 9.31 crores on the 30th June, 1956.

#### FINANCING OF HAJ PILGRIMAGE

17. As in the past years, the pilgrims were provided with foreign exchange mostly in the form of Haj notes of



the denominations of Rs. 10 and Rs. 100. The facility of issue of travellers cheques and Sterling drafts was also provided to pilgrims who wished to take foreign exchange in these forms. Total issue of Pilgrim Notes amounted to Rs. 1,96,77,770 during 1956. The number of pilgrims from this country during 1956 was 21,950 as against 18,500 in 1955.

#### INSPECTION OF BANKS

18. Twenty-two banks were inspected during the year of which five were scheduled banks, sixteen non-scheduled banks and one cooperative bank, while the inspection of one scheduled bank was in progress as the year under review closed.

#### BANKS IN LIQUIDATION

19. During the period under report one non-scheduled bank in East Pakistan was ordered into liquidation for non-fulfilment of the requirements of the Banking Companies (Control) Act, 1948.

#### GROWTH OF BANKING

20. Commercial banking facilities continued to expand during the year. Twenty-four new branches were opened by banks during 1956-57 as against 17 in the preceding year. Of these 23 branches were opened by scheduled banks while one branch was opened by a non-scheduled bank. The National Bank of Pakistan opened 9 branches while the Habib Bank Ltd., and the Bank of Bahawalpur Ltd., accounted for 6 each. Three branches, one by mer-

ger, were closed during the year as compared with 7 in the previous year.

During the year, 4 scheduled banks namely the Prabhat Bank Ltd., Bharat Bank Ltd., Hindustan Commercial Bank Ltd., and Punjab & Sind Bank Ltd., were descheduled. The Allahabad Bank Ltd., with its branches at Lyallpur, Lahore and Karachi was taken over by the Chartered Bank. Thus the total number of scheduled banks was reduced from 32 to 27.

The total number of non-scheduled banks submitting returns under the Banking Companies (Control) Act, 1948, stood at 44 with total liabilities of Rs. 1.39 crores on the 29th March, 1957, as against 37 on the 29th March, 1956.

#### BANKING AND CREDIT SITUATION

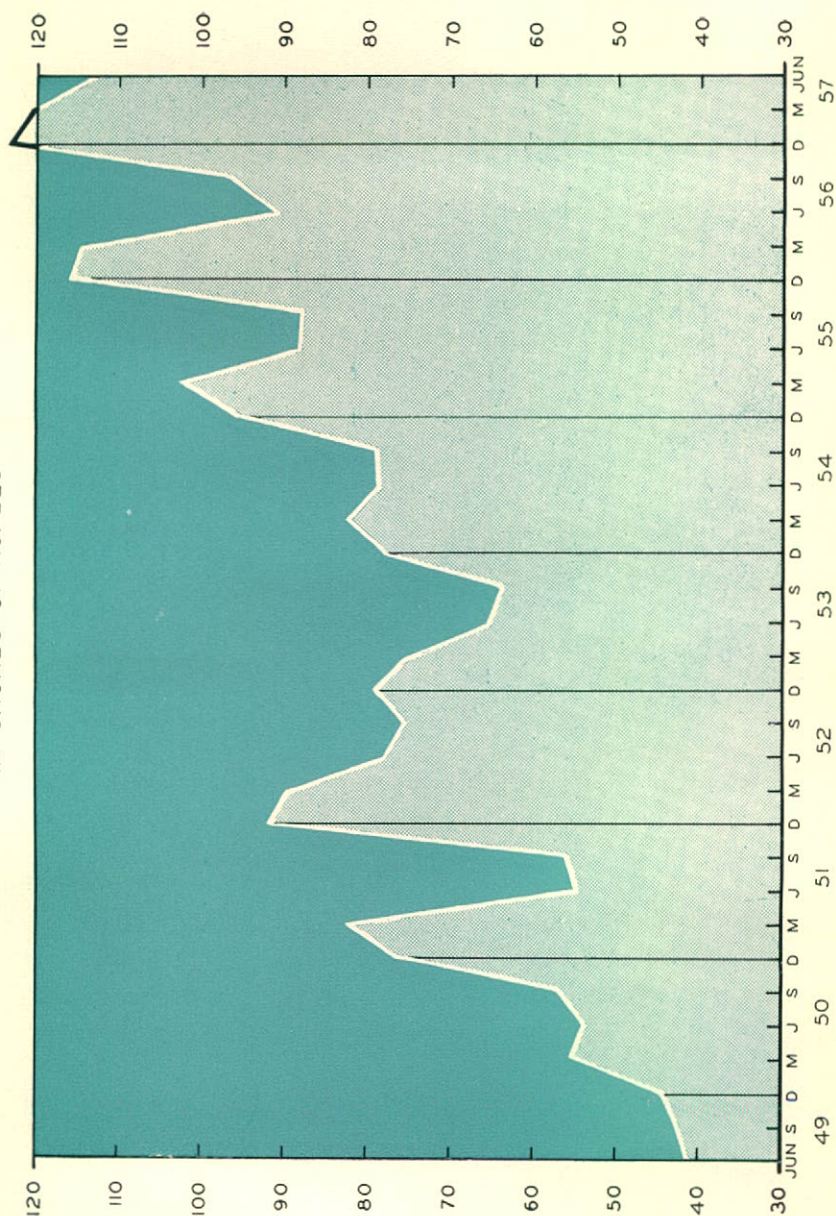
21. The following table compares the position of the scheduled banks:—

	(In lakhs of Rs.)	
	29.6.1956	28.6.1957
Demand Liabilities	1,50,97	1,62,65
Time Liabilities	60,90	61,93
Total	2,11,87	2,24,58
Borrowings from the S.B.P.	2,83	9,30
Cash in hand	4,95	5,33
Balances with the S.B.P.	26,43	14,14
Balances with other banks in current account in Pakistan	4,61	4,96
Money at call and short notice in Pakistan	5,49	10,44



## BANK CREDIT

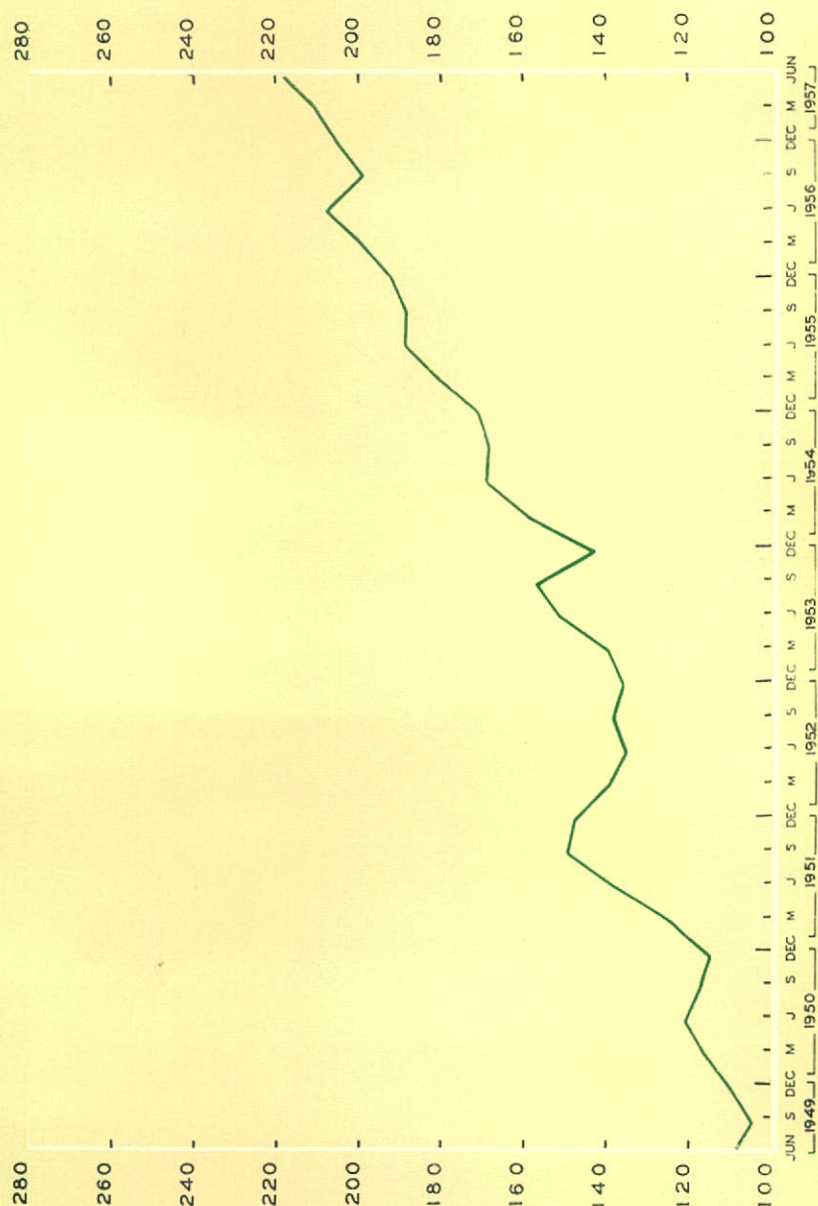
IN CRORES OF RUPEES







# BANK DEPOSITS IN CRORES OF RUPEES







Investments in Pakistan	82,03	82,69
Advances in Pakistan	80,35	1,02,81
Bills purchased and discounted in Pakistan	11,22	10,46

Total demand and time liabilities of the scheduled banks showed an increase of Rs. 12.71 crores of which Rs. 11.68 crores was in demand liabilities. Bank credit recorded a rise of Rs. 22.46 crores, the banks having utilised their increased resources and resorted to borrowings from the State Bank of Pakistan for the purpose. In addition to an increase of Rs. 6.47 crores in their borrowings from the State Bank of Pakistan they drew upon their balances with the Bank which fell sharply by Rs. 12.29 crores as compared with the figure last year. The investments of the scheduled banks did not show any marked improvement, having recorded a rise of only Rs. 0.66 crore.

Under the Bills Rediscounting Scheme the facility availed of by banks amounted to Rs. 33.82 crores.

#### CREDIT CONTROL

22. With a view to checking the hoarding of imported goods as a disinflationary measure and to direct credit to more essential purposes the State Bank decided in June, 1957 to impose selective credit control. In pursuance of this a circular was issued to all banks on 29th June, 1957 asking them to limit their advances against imported manufactured goods, bullion, foodgrains and oil seeds to the extent of 60% of the value of such goods and also to limit unsecured advances and advances secured by guarantees to a maximum of Rs. 50,000 to an individual party provided that the ad-

vance was not intended for financing imports of manufactured goods, bullion, foodgrains and oil seeds. The banks were asked to adjust their outstanding advances to the specified levels within 3 months from the date of receipt of the circular. At the same time the authorised dealers were instructed by the State Bank not to open Letters of Credit to cover imports into Pakistan unless 15% of the amount of credit was deposited with them.

#### RURAL FINANCE

23. The State Bank of Pakistan continued its policy, initiated in 1955, of making loans to cooperative institutions for financing agriculture at the reduced rates of interest of  $2\frac{1}{2}\%$  and  $1\frac{1}{2}\%$  against Government securities and agriculture paper respectively as against its usual lending rate of 3%, on the condition that the benefit of the low rates is passed on to the ultimate borrower. During the year, overdraft facilities were granted to a Provincial Cooperative Bank against Government securities amounting to Rs. 3,00,00,000 at  $2\frac{1}{2}\%$  interest out of which it availed Rs. 2,53,75,000. A total sum of Rs. 59 lakhs was made available at  $1\frac{1}{2}\%$  through 3 Provincial Cooperative Banks in East and West Pakistan under Section 17 (6) and 17(2) (b) of the State Bank of Pakistan Act.

With a view to assisting cooperative banks to improve their working a scheme for the training of their staff in commercial banks was undertaken during the year. Arrangements were made initially for the training of 9 Cooperative Officers from each wing of the country in various commercial banks, the expenses to be borne by the State Bank.



The rural credit survey projects undertaken by the Dacca and the Punjab Universities with the assistance provided by the State Bank and the Asia Foundation made good progress during the year. While the survey by the Dacca University and its draft report have been completed, the Punjab University survey is in an advanced stage.

The scheme for the establishment of an Agricultural Bank, which was initiated by the Bank was finalised with the passing of the Agricultural Bank Act 1957. Arrangements for the commencement of the bank's operations are being made and it is expected to start functioning very shortly.

#### INDUSTRIAL FINANCE

24. The scheme for the promotion of the Pakistan Industrial Credit and Investment Corporation made further progress and as the year closed final touches were being given to its constitution. A delegation has proceeded to Washington to negotiate foreign participation in its equity capital and a loan agreement with the I.B.R.D. The negotiations are now in the final stages and it is expected that the Corporation will be established immediately after the conclusion of these negotiations.

#### EXCHANGE RATES

25. In the rupee-sterling exchange market, the Bank's rates for telegraphic transfers remained fixed at 1sh. 5 31/32d. selling and 1sh. 6 1/32d. buying.

The State Bank's rates for the sale and purchase of sterl-

ing during the year under report remained as under:—

Selling ready lsh. 5 63/64d.

Selling forward upto  
6 months lsh. 5 31/32d.

Purchase ready and forward  
delivery upto 6 months lsh. 6d.

The total sale of sterling to Authorised Dealers by the State Bank during the year amounted to £41.75 million as against total purchase of £59.69 million.

#### EXCHANGE CONTROL

26. With effect from 14th February, 1957 the Basic Exchange Quota for travel for personal convenience was abolished for all countries except Iran, Iraq, India, Burma and Ceylon. Exchange for travel to countries outside those mentioned above, is granted in deserving cases on application. Booking of passages by Air and Steamer for the Pakistani nationals to destinations outside India, Burma, Ceylon, Iran and Iraq is also restricted to cases where exchange is sanctioned for travel abroad. The limit upto which Pakistan currency notes could be freely brought into Pakistan was raised with effect from 14th September, 1956 from Rs. 250 to Rs. 500 per person.

The penal clauses of the Foreign Exchange Regulation Act, 1947 were amended in the year 1956 providing for the trial of foreign exchange offences by Adjudication Officers or Special Tribunal. The Supreme Court have, however,



held that the amendment of the Foreign Exchange Regulation Act providing for trial of exchange offences by different judicial agencies is not in keeping with the provisions of the Constitution. Consequently penal provisions of the Act have been recently amended to bring them in line with the decision of the Supreme Court.

#### OIL PROSPECTING

27. At present oil is being produced in the country by two companies operating in West Pakistan. The annual production of oil has increased from 300,000 barrels in 1947 to over 18,00,000 barrels in 1956, a rise of nearly 600 per cent. This is about 20% of the annual requirements of the country. The balance is imported from abroad.

The search for oil which has been going on since pre-independence days has now been intensified. Upto 1954 only 3 oil exploration companies were operating in Pakistan. Four more oil companies have since entered the field of exploration and a number of other oil companies are carrying on negotiations with the Government for obtaining oil concessions in the country.

These companies have been licenced areas in East and West Pakistan and so far 24 tube wells have been drilled. In five of these Companies there is participation of Pakistani capital from 25% to 30% most of which is provided by the Government of Pakistan. It may be mentioned that post-Partition searches have already resulted in the discovery of a small oil-field in West Pakistan and gas fields in both the wings of the country.

## FOREIGN AID

28. The U.S. economic aid allocations during 1956-57 moved up slightly to \$175.1 million from \$170 million in 1955-56. The loan portion of the aid was, however, significantly larger than last year and amounted to \$42.0 million. Of the total aid obligated during the year, \$36.7 million was for project aid and \$64 million for commodity aid under Mutual Security Legislation. The remainder was accounted for by surplus agricultural commodities offered under the U.S. Public Law 480. Under project assistance the amounts earmarked for some of the major projects were as follows: \$3.6 million for the Multan-Lyallpur Electrical Transmission System, \$4.5 million for the Karnaphuli Multi-purpose project and \$8.5 million for rail-road rehabilitation. Commodity assistance was to be utilised for the import of sugar, fertiliser, chemicals, iron and steel, engines, turbines, vehicles, tractors, rail-road cars and some other essential items. Of nearly \$75 million surplus agricultural commodities offered under U.S. Public Law 480, two-thirds were made available for the import of foodgrains.

Capital assistance offered to the country under the Colombo Plan, during the year under review was the equivalent of \$10.6 million as against \$9.84 million in the previous year. The year's allocations comprised of 9.33 million from Canada, \$0.43 million from Australia and \$0.84 million from New Zealand.

## COMMODITY MARKETS

29. Commodity markets in Pakistan displayed considerable strength during the year. Prices of jute and cotton



recorded substantial gains because of lower supplies and increased domestic consumption. Among other commodities tea prices increased appreciably after an initial weakness while wool and hides and skins showed divergent trends.

Though the area under cotton increased by 1.5% in 1956-57, output declined by 9.8% to 15.7 lakh bales due mainly to damage caused by rains and pest attack. This combined with the carry-over of 1.1 lakh bales gave a total supply of 16.8 lakh bales as against 18.0 lakh bales in the previous season. As export sales till the end of June 1957 aggregated to 6.2 lakh bales while another 8.7 lakh bales are expected to be absorbed by domestic mills, the cotton season is likely to end with a small carry-over.

The official estimate placed the area under jute in 1956-57 at 12.30 lakh acres as against 16.34 lakh acres in the previous season. Though this meant a substantial decline in acreage, output at 64 lakh bales was well maintained compared with 65 lakh bales last season. Total supply including the carry over of about 2 lakh bales therefore amounted to 66 lakh bales in 1956-57 as against 68.5 lakh bales in the preceding year. E.P.C. registrations declined sharply from 59.40 lakh bales in 1955-56 to 47.75 lakh bales during the year under review. After making some allowance for smuggling and taking the domestic consumption at 11.50 lakh bales, the available exportable surplus of 48.50 lakh bales was disposed of, leaving a small carry-over at the end of the season.

#### FOOD SITUATION

30. The food situation caused grave anxiety in the

earlier part of the year under report necessitating large imports of foodgrains. After a temporary improvement consequent upon the imposition of army control on the movement and distribution of foodgrains, prices of rice in East Pakistan resumed their upward course beginning from the middle of August when army control was lifted. Prices touched high levels and ruled at Rs. 52/8/- per maund for coarse variety and Rs. 55/- per maund for medium variety at Dacca towards the close of August. In order to cope with the steeply rising trend in prices, vigorous attempts were made to obtain supplies from abroad. The Government of Pakistan entered into various aid agreements with the U.S.A. for the purchase of a total of 590,000 tons of foodgrains during 1956-57. In addition, purchases from other sources were also made and paid for from Pakistan's own resources. By the middle of October the Central Government had procured a total quantity of 780,000 tons of foodgrains for East Pakistan at a cost of Rs. 48.30 crores in Pakistan currency and £ 13 million in foreign exchange.

About 2.5 lakh tons of rice was unloaded at Chittagong and Chalna ports during the quarter August-October, 1956. Though the increased arrivals had some salutary effect on prices, this was more than offset by end-season scarcity during October so that near-famine conditions prevailed in areas far from the main supply centres. The Government, therefore, arranged for air-dropping of rice in some of the worst affected areas while at other places gruel kitchens were set up to save people from starvation. However, the arrival of Aman crop in November provided a much needed relief and the prices registered steep declines



ranging between Rs. 25/- and Rs. 26/- per maund by the end of December, 1956.

The new crop estimated at 9.05 million tons indicated an increase of 7.7% in the total output as compared to the previous year. The improvement in production was, however, not sufficient to meet the total requirements of rice in the country. Rice prices, therefore, again started moving up as soon as the harvesting season was over, attaining the level of Rs. 43/- per maund for coarse quality at the end of June, 1957.

In West Pakistan though official estimates of wheat crop harvested in May, 1956 placed production 5% higher as compared to preceding year, the weak response to the Government's procurement drive indicated a decline in the marketable surplus of wheat. The government of West Pakistan declared a deficit of 3.25 lakh tons which was in addition to the requirements of the Central Government. The Central Government, therefore, had to make arrangements for the import of 6 lakh tons of wheat to meet the deficit in West Pakistan during the year. The market prices of fair average quality wheat at Lyallpur rose steadily from around Rs. 10/- per maund in June, 1956 to Rs. 14/- in August. Though the finalization of arrangements for import of wheat tended to check prices, the Suez crisis disrupted the import schedule and wheat prices had increased to Rs. 17/8/- per maund in January, 1957. As regular flow of imported wheat was resumed and provisioning was extended to a large number of towns early in 1957, wheat prices in important centres registered steady decline. By the end of the crop year in April prices had

come down to Rs. 12—12/4/- per maund. The procurement price of Rabi wheat harvested in May, 1957 was fixed at Rs. 11/8/- per maund against Rs. 10/- per maund in the previous year. The market price, however, after a brief spell continued to rule higher than the procurement price.

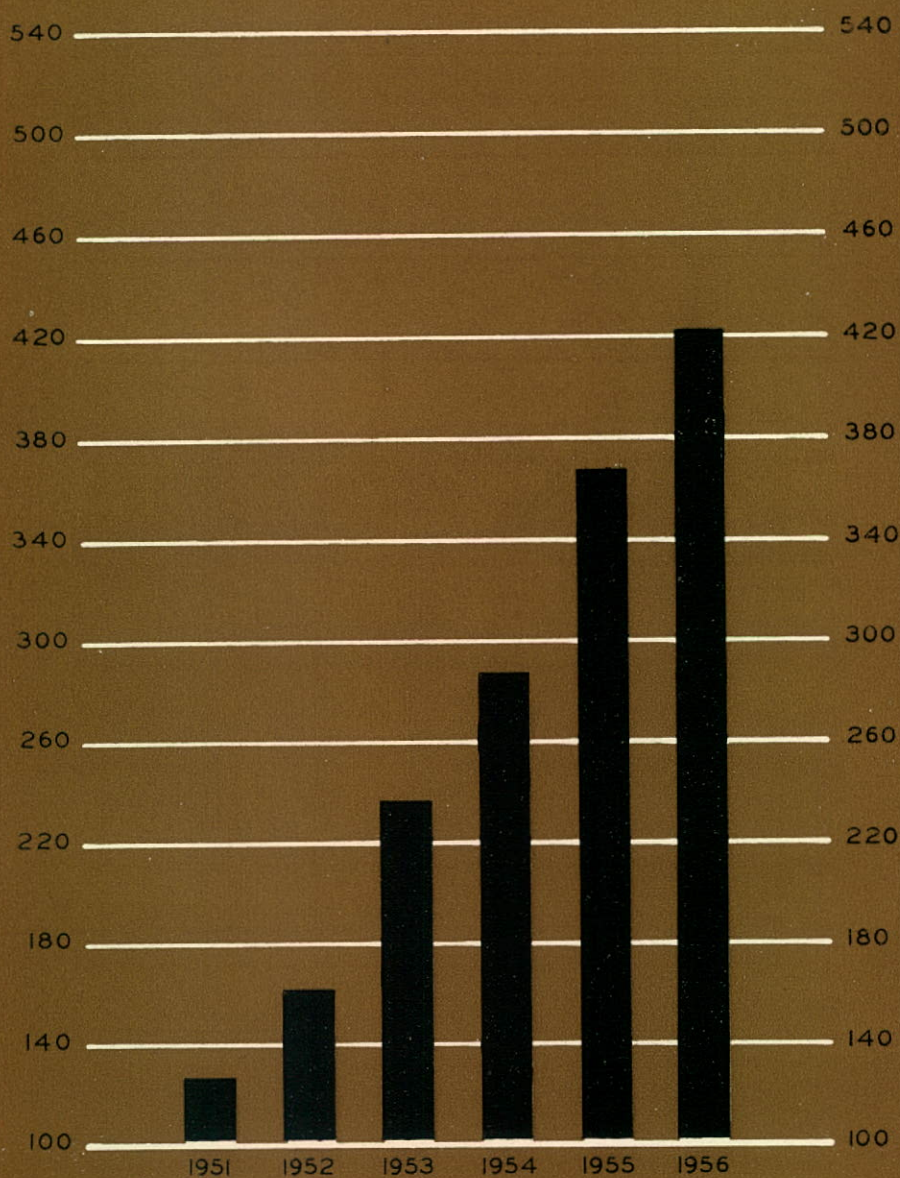
#### INDUSTRIAL PRODUCTION

31. From the available data it appears that the pace of industrial expansion slowed down somewhat during 1956-57. The index of industrial production rose by 15% to 420 during 1956 which compared with the rise of 28% in 1955. The trend towards the levelling off of industrial production became particularly noticeable during the final quarter of 1956. In fact, industrial production actually declined in some cases in the first quarter of 1957. The production of cotton fabrics, for example, aggregated to 132.29 million yards during January-March, 1957 as against 139.60 million yards in the final quarter of 1956 and 123.35 million yards in the first quarter of 1956. Similarly in the case of jute-goods, the total production declined from 36,321 tons in October-December, 1956 to 35,083 tons in January-March, 1957. The corresponding figure for the first quarter of 1956 was 34,169 tons. Among important items, production of cement indicated a substantial rise from 6.82 lakh tons in 1955 to 7.74 lakh tons in 1956 and to an annual rate of 11.24 lakh tons in the first quarter of 1957 which mainly reflected the commencement of production in new cement factories. Recent data regarding other industries is not fully available, but it appears that despite a high level of effective demand, the industrial sector of the economy could not operate at full capacity on account of



# INDEX OF INDUSTRIAL PRODUCTION

1950=100







a number of factors. The difficult balance of payments situation, heavy drain on account of food imports and the great need for conserving foreign exchange resources led to the continuance of restrictive import policies, the effects of which were also felt in the reduced availability of raw materials and spare parts. In certain areas the inadequacy of power was an additional limiting factor.

#### MONEY MARKET

32. The short term money market was characterised by tight conditions during the greater part of the year under review. The call money rate which opened at  $\frac{1}{2}$ - $\frac{3}{4}$ % in the first week of July, 1956, rose to  $1\frac{1}{4}$ % by the end of the month and to  $1\frac{1}{2}$ % in the first week of August as a large part of bank funds was absorbed in 3% 1961 (2nd Issue) and  $3\frac{1}{4}$ % 1967 Central loans floated in the middle of July. The commencement of busy season financing in August coupled with the floatation of  $3\frac{1}{2}$ % West Pakistan loan 1962 in September intensified the demand for funds in the market leading to greater tightness in the money market. The call rate stiffened steadily to touch  $2\frac{1}{4}$ % by the end of September, 1956. More stringent conditions developed thereafter as the seasonal activity gained momentum. The outbreak of hostilities in the Suez Canal area and consequent shipping bottlenecks added to the pressure on market resources by blocking funds in stocks held for export pending resumption of normal traffic. The stringency was, therefore, accentuated at the end of December, 1956 when the inter-bank call money rate touched  $3\frac{1}{2}$ %. The rate, however, eased subsequently to rule at 3% till mid-March, 1957 as surplus demand was met by borrowings from the State

Bank of Pakistan. Thereafter, consequent on a reduction in the demand for additional bank accommodation the inter-bank call money rate declined to  $2\frac{1}{2}\%$  by the end of May and came down further to  $1\frac{1}{4}\frac{1}{2}\%$  towards the close of June, 1957. This compared with the call money rate at  $\frac{1}{2}\%$  at the end of June, 1956.

Sales of 90 days Government Treasury bills continued to remain on tap at the fixed rate of Rs. 99/14 per Rs. 100/- for investment under deferred payments scheme. During the year total subscriptions on tap amounted to Rs. 14.29 crores, while repayments totalled Rs. 16.19 crores. Beginning from December, 1956, Treasury bills were also issued on tap at the fixed rate of 1%. Total contributions to these amounted to Rs. 3.50 crores, of which Rs. 2.00 crores had been retired by the end of June, 1957. For investment by institutional investors on their own account tenders were also invited until mid-October, 1956 after which they were suspended due to stringent money market conditions. The system was revived in May, 1957, as seasonal retirement of funds began to be reflected in idle cash balances with the banks. The amounts offered and accepted under the tender system until October, 1956 aggregated Rs. 3.50 crores at rates ranging between Rs. 99/12 and Rs. 99/13 per Rs. 100/-. These had all been retired by the end of January, 1957 in addition to a sum of Rs. 3.50 crores outstanding from previous year in this account. A sum of Rs. 1.50 crores subscribed through this media since May, 1957 was still outstanding at the close of the year under report. As total repayments under the tap and tender systems exceeded fresh Treasury bills, outstandings as on 28th June, 1957 stood lower at Rs. 6.00 crores as against Rs. 8.40 crores on 29th June, 1956.



## MONEY SUPPLY

33. Money supply recorded a further increase of Rs. 45.40 crores to Rs. 501.53 crores during the year under review which compared with the expansion of Rs. 65.49 crores in the preceding year.

**TABLE** (In crores of Rs.)

	Currency Circulation	Demand Deposits (General)	Other De- posits with the State Bank	Money Supply
June, 1955 ..	260.34	127.02	3.28	390.64
June, 1956 ..	305.27	143.12	7.74	456.13
September, 1956 ..	306.45	135.40	4.39	446.24
December, 1956 ..	346.41	142.97	3.17	492.55
March, 1957 ..	351.57	143.65	9.08	504.30
June, 1957 ..	343.21	149.01	9.31	501.53
Increase/Dec- rease over June 1956-June 1957. ..	+37.94	+5.89	+1.57	+45.40

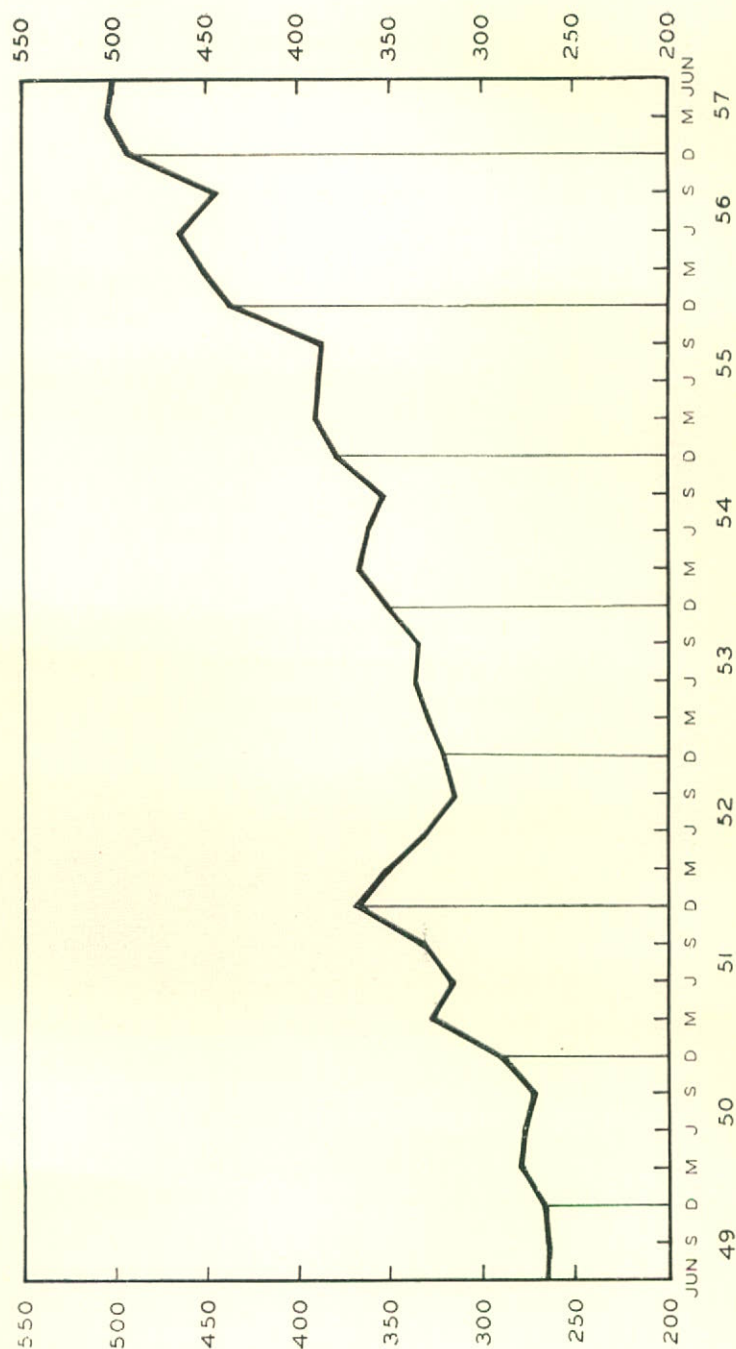
Month to month fluctuations in money supply conformed broadly to the seasonal pattern. Money supply recorded a decline of Rs. 9.89 crores during July-September, 1956, due mainly to slack season influences. With the commencement of the busy season, the declining trend

was reversed and the money supply began to rise sharply. Money supply increased by as much as Rs. 46.31 crores during October-December, 1956 which compared with the rise of Rs. 46.68 crores in the same period last year. The uptrend in money supply was maintained during the early months of 1957 carrying it to the peak level of Rs. 511.54 crores in April, 1957. A down-trend was noticeable thereafter and the money supply had come down to Rs. 501.53 crores at the end of June, 1957.

An analysis of causative factors responsible for the increase in money supply reveals that though the money supply increased less than in the previous year, domestic expansionary forces were much more powerful during the year under report. Of the total increase of Rs. 65.49 crores in money supply during 1955-56 as much as Rs. 44.45 crores or approximately 68% was on account of surplus in the foreign accounts of the country. During the year under report, on the other hand, the balance of payments position was one of deficit and exercised a restrictive influence on money supply to the tune of Rs. 21.71 crores. Government sector accounted for more than 90% of the increase in money supply during 1956-57. Bank credit to the private sector also showed a substantial increase of Rs. 23.70 crores during the year, though a large part of this was on account of the distortion caused by the Suez crisis as the resultant shipping bottlenecks led to slower physical movement of the country's major exports so that the funds borrowed from the banking system for export financing could not be released expeditiously and remained outstanding for a period longer than usual.



# MONEY SUPPLY IN CRORES OF RUPEES







## PRICE SITUATION AND COST OF LIVING

34. The price situation remained under pressure during the year. Though no wholesale price index is available to indicate precisely the magnitude of fluctuations in the general price level, whatever data is available indicated an upward trend in prices.

Food prices were subjected to wide fluctuations during the year. At Dacca the free market price of medium quality rice advanced sharply to Rs. 55/- per maund in August and ruled around that level till the end of October. However, the arrival of Aman crop in November led to a sharp decline in the quotation to Rs. 26/- per maund at the end of December, 1956. Prices began to rise again after the close of harvesting season reaching Rs. 43/- per maund at the end of June, 1957. Quotation of fair average quality wheat at Lyallpur moved up from around Rs. 10/- per maund in June, 1956 to Rs. 17/8/- per maund in January, 1957. Though the prices declined subsequently, the closing level of Rs. 13/8/- still reflected a net increase of Rs. 3/8/- per maund over the year. Among other foodgrains, while average wholesale prices of maize and jowar showed a substantial decline, the prices of barley, gram and pulses registered net increases.

Among manufactured goods, the prices of imported cotton textiles rose sharply over the year. The prices of white shirting 16000 went up by 46.1% while that of R-52 white drill advanced by 20.8%. The prices of indigenous cloth also rose ranging between 8.6% for grey long cloth and 34.9% for bleached long cloth. In the same group the prices of toilet goods including soap, hair oil and blades etc.

were also higher at the end of June, 1957 as compared to the corresponding period last year. It was only in the case of drugs and medicines that the special measures to check the uptrend in prices were successful in maintaining the market prices at a steady level.

Increases were also recorded in the case of a number of items of daily consumption namely mustard oil (42.6%), coconut oil (29.6%), vegetable oil (20.0%), pure ghee (17.3%), refined sugar (32.3%), tea (10.7%), chillies (38.9%) and rocksalt (18.8%). Kerosene oil prices rose over the year by 5% and 100% at Lahore and Dacca respectively.

The working class cost of living index which is heavily weighted in favour of food prices and includes mostly controlled prices reflected the general rise in the level of prices only to a limited extent. At Karachi, where the weightage attached to food is the lowest, the general index moved up from 108 to 118 over the year due mainly to the increase of 12.7 per cent, 11.1 per cent and 4.1 per cent respectively in the prices of food, fuel and lighting and miscellaneous groups. The index of clothing reflected no net change as, for certain technical reasons, it is being assumed constant. Similarly, the general cost of living index for industrial workers advanced from 96 to 101 at Lahore, from 91 to 97 at Sialkot, from 94 to 105 at Khewra and from 112 to 115 at Narayanganj.

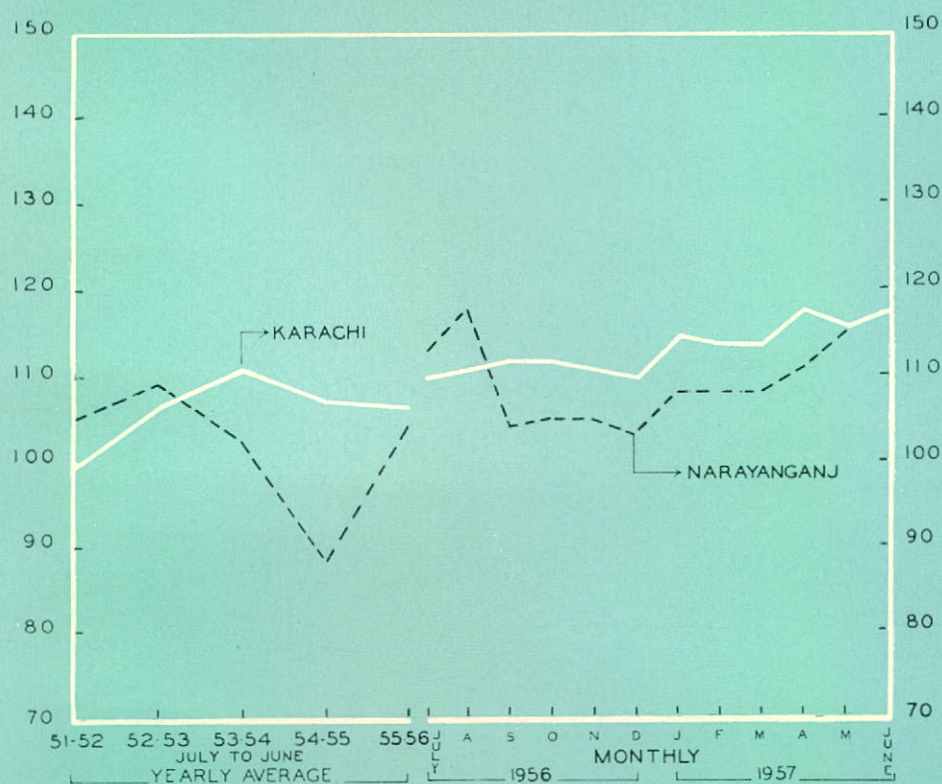
#### FOREIGN TRADE

35. The total value of exports recorded a decline of Rs. 17.7 crores to Rs. 160.6 crores during 1956-57. The 10 % decline over the year was confined to raw jute



# INDICES OF COST OF LIVING

OF INDUSTRIAL WORKERS  
(BASE = APRIL 1948 - MARCH 1949 = 100)







and raw cotton exports as most other export commodities showed increases. The value of raw jute exports came down by 15 % to Rs. 70.59 crores, while the value of cotton exports dropped from Rs. 46.21 crores to Rs. 35.25 crores. It was noteworthy that the share of these two major exports in the total declined sharply from 72 % to less than 66 % over the year. As the following figures disclose, the decline in the value of both jute and cotton exports was due entirely to lower volume as average export prices of these commodities actually rose over the year by 18 % and 9 % respectively.

#### *RAW JUTE EXPORTS*

	<i>Quantity</i>	<i>Value</i>
1955-56	56.81 lakh bales	Rs. 82.87 crores
1956-57	40.92 lakh bales	Rs. 70.59 crores

#### *RAW COTTON EXPORTS*

	<i>Quantity</i>	<i>Value</i>
1955-56	9.48 lakh bales	Rs. 46.21 crores
1956-57	6.63 lakh bales	Rs. 35.25 crores

The volume of jute exports which at 56.81 lakh bales during 1955-56 had attained the highest level since 1950-51 fell sharply by 15.89 lakh bales over the year to stand at 40.92 lakh bales. Of this decline, reduction in Indian purchases alone accounted for 46 per cent. Lower offtake by India was attributable mainly to expansion in production of raw jute in that country and reported smuggling of Pakistani jute. The fall in the volume of jute exports was largely due to lower output of raw jute and increased domestic consumption. The decline of 2.85 lakh bales

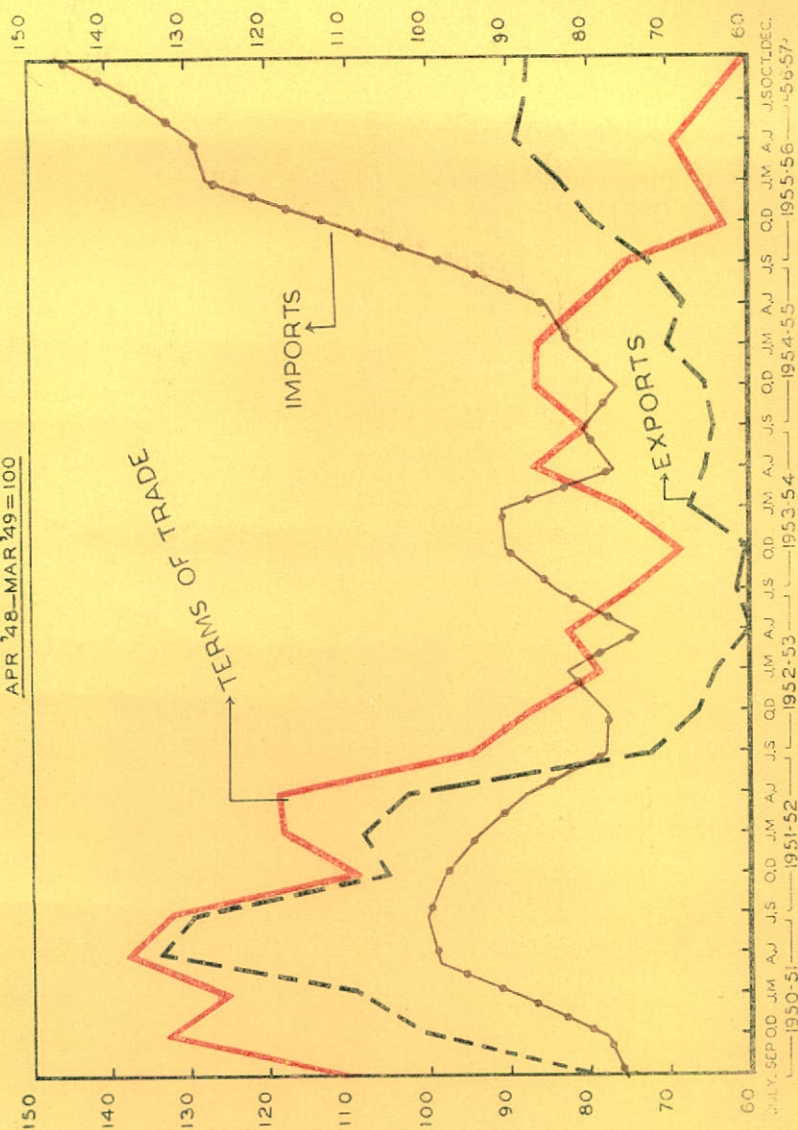
to 6.63 lakh bales in the volume of cotton exports was chiefly the result of smaller crop and increased domestic consumption. The decline in the value of jute and cotton exports was offset to some extent by increased exports of other items. Hides and skins and wool exports advanced from Rs. 3.86 crores and Rs. 6.83 crores to Rs. 4.37 crores and Rs. 9.86 crores respectively due both to higher prices and larger quantum. Tea exports also showed an increase of 50% to Rs. 5.14 crores consequent upon a sharp rise in volume. It was significant that the importance of manufactured goods in total exports was growing. Cotton yarn and manufactures manifested a marked advance of Rs. 5.69 crores during the year to Rs. 9.26 crores and emerged as the third most important export of the country. Exports of jute manufactures at Rs. 9.1 crores, however, were Rs. 1.47 crores below last year's level.

Total imports at Rs. 194.8 crores during the year showed a sharp increase of Rs. 70.4 crores over 1955-56 and were the highest since 1951-52, the O.G.L. period. The 57% increase over the year was attributable mainly to large imports of foodgrains both under aid programmes and against cash payment. Small increases were also recorded in imports of machinery, vehicles and metals and ores reflecting an acceleration in developmental activity. Among industrial raw materials the only notable decline was in mineral fuels. There was also a sharp decline in the imports of cotton manufactures and yarn which were nearly 65% below the level in the previous year. It may be noted that even the increase in the value of imports of certain individual commodities did not necessarily reflect a corres-



# INDICES OF IMPORT AND EXPORT PRICES AND TERMS OF TRADE

APR '48-MAR '49=100





TEMPERATURE vs. TIME



ponding rise in their volume as import prices showed a marked increase during 1956-57.

#### TRADE AND PAYMENTS AGREEMENTS

36. A number of fresh trade agreements were concluded during the year under review. The trade agreement signed with U.S.S.R. in June, 1956 was ratified during 1956-57. A special feature of the agreement is the payments arrangement under which all transactions between the two countries relating to importation and exportation and other payments of a commercial nature will be made in Pakistan rupees. The balance accruing to the credit of U.S.S.R. would be fully convertible into sterling without any prior notice. One year trade agreements effective from 30th July, 1956 and 15th August, 1956 were also signed with Hungary and Czechoslovakia respectively and were automatically renewable provided no notice of termination was given by either party three months before expiry. Another trade agreement was concluded with Austria valid for one year from 24th December, 1956. The trade agreement with India which expired on 30th August, 1956 was extended upto 31st January, 1957 after which a fresh three-year agreement was signed with that country. The new agreement, which came into effect from 1st February, 1957 will be revised annually and will be subject to six-monthly reviews. Under a three-year trade agreement signed with Burma on 25th February, 1957 Pakistan will import rice besides timber and other products of Burmese origin. Exports from Pakistan will consist mainly of jute and textiles. The trade agreements with France and Germany which were to expire on 30th June, 1956 were extended

on similar lines for another year. The payments arrangements with France providing for the financing of trade under the agreement in French francs were, however, discontinued. The agreement with Poland which was valid upto 3rd February, 1957 was also renewed for one year. Trade pacts concluded with Italy and Japan last year expired during the year.

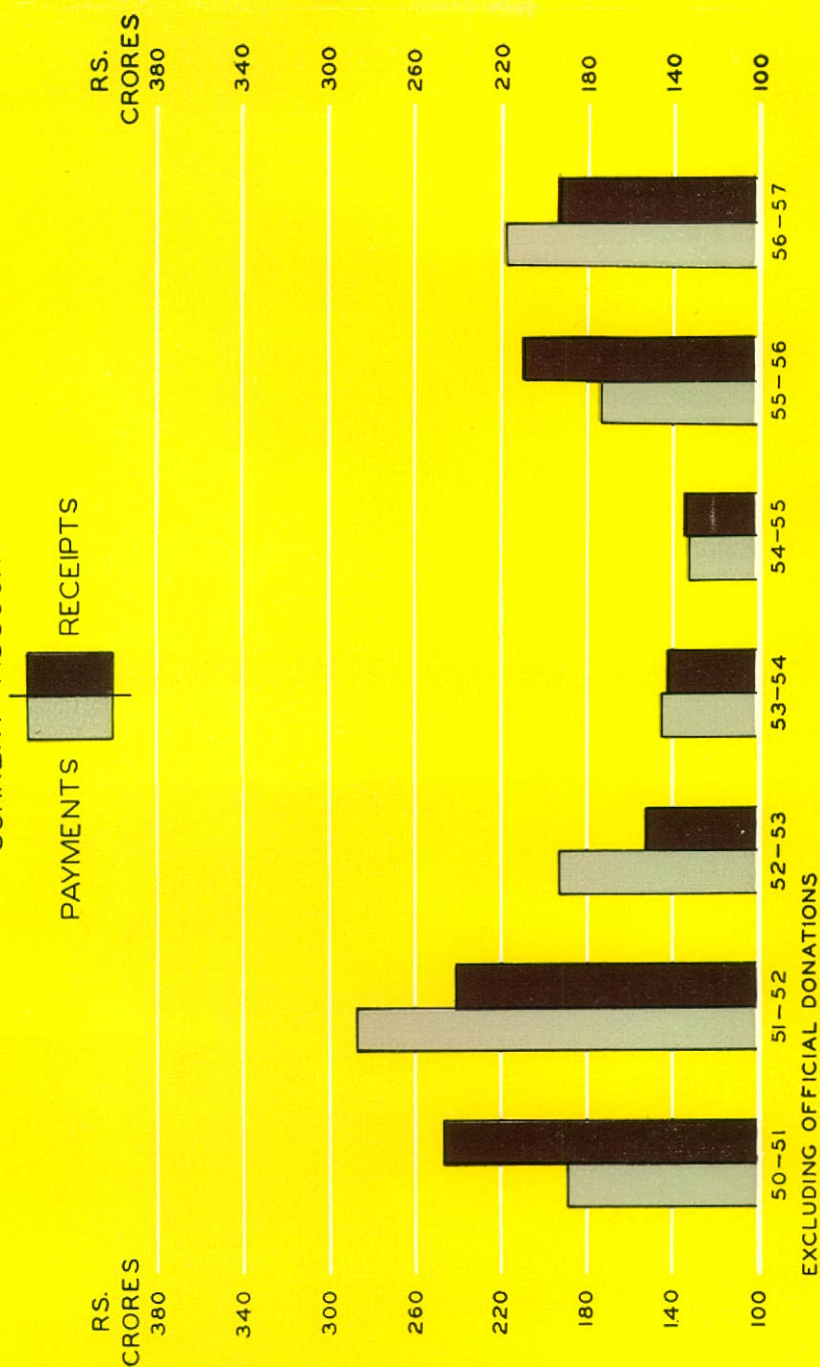
#### BALANCE OF PAYMENTS

37. The balance of payments which had shown considerable improvement during 1955-56 came under serious pressure during the year under review with a deficit of Rs. 26.66 crores, the largest since 1952-53. As against this, there was a current account surplus of Rs. 35.86 crores during 1955-56. The deterioration of Rs. 62.52 crores over the year was the combined result of a number of factors, of which large foodgrain imports out of the country's foreign exchange resources, a drop in raw jute and raw cotton earnings and a rise in import costs were the most important.

Total foreign exchange earnings (excluding official donations) which had increased, in real terms, by 11% during 1955-56 came down by 8% to Rs. 190.98 crores. The decline of Rs. 17.99 crores as compared to last year was accounted for entirely by lower earnings from raw jute (-Rs. 11.86 crores) and raw cotton (-Rs. 13.12 crores) as receipts from all other commodities recorded an increase. There was a particularly marked increase in earnings from cotton manufactures which went up by 200 % over the year to stand at Rs. 9.52 crores.



# PAKISTAN'S BALANCE OF PAYMENTS CURRENT ACCOUNT







Total payments (excluding expenditures financed by aid) advanced sharply from Rs. 173.11 crores in 1955-56 to Rs. 217.63 crores during the year under review. The rise of Rs. 44.52 crores was attributable mainly to imports and other payments on government account which moved up by 70% over the year to the record level of Rs. 91.57 crores. Extraordinary foodgrain imports were mainly responsible for this increase in government payments though other items of government expenditure abroad also appeared to have contributed to the rise. Payments for commercial imports and invisibles also rose by 4% and 9% respectively to stand at Rs. 86.96 crores and Rs. 39.11 crores.

There was a net inflow of Rs. 3.73 crores during the year under review on account of investment in Pakistan and overseas borrowings which helped finance a part of the current account deficit so that the "gold, dollar and sterling" reserves declined by Rs. 19.42 crores only to stand at Rs. 120.05 crores at the end of June, 1957.

#### GOVERNMENT BORROWINGS

38. The Government of Pakistan floated two new loans, the 3 percent Loan 1961 (2nd issue) and 3½ percent Loan 1967 during the year under review. The first loan was open for one day only and was issued at Rs. 99/14/- percent while the second was issued at par and remained on tap till 11th August, 1956. Subscriptions to the two loans were receiveable in cash as well as by conversion of 2½% Loan 1955-56. The first loan attracted subscription of Rs. 11,97,23,400 in cash and Rs. 7,45,83,400 by way of conversion. The second loan received Rs. 7,17,15,800 in cash

and Rs. 3,67,70,200 by conversion. As a result, the total debt of the Central Government increased from Rs. 166.36 crores on 30th June, 1956, to Rs. 183.31\* crores on 30th June, 1957.

The West Pakistan Government also floated 3½ percent Loan 1961-62 during the year and offered facilities for conversion of 3 percent Punjab Bonds 1956 into the new loan. The subscription received towards the loan amounted to Rs. 3,67,46,500, out of which Rs. 1,00,99,200 was by way of conversion of the 3 per cent Punjab Bonds 1956. The balances of Provincial Government loans outstanding as on 30th June, 1957 were as under:—

(a) West Pakistan	Rs. 26,75,20,800
(b) East Pakistan	Rs. 3,34,14,700
	<hr/> Rs. 30,09,35,500

#### GENERAL ECONOMIC SURVEY

39. The economic situation in Pakistan was subjected to serious strains during the year under review. The main pressure originated from an excessive monetary demand resulting from large governmental outlays and as this was not accompanied by an adequate increase in the supply of goods, there was deterioration in the price situation. Shortages were acute in some strategic sectors of the economy namely foodgrains, imported consumer goods, raw materials and spare parts. International developments also added to the difficulties. The growth of inflationary pres-

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\* This does not include amount of loan discharged outstanding after one year from the date of notice of discharge (i.e. 2½% Loan 1953-54).



tures in the main exporting countries of the West tended to raise the domestic price level. The Suez crisis not only disrupted the flow of imports but also increased the landed cost on account of the rise in freight rates and insurance charges.

Money supply increased by Rs. 45.40 crores during 1956-57 despite the accumulation of sizeable counter-part funds against the sale of U.S. Aid commodities and a balance of payments deficit. This monetary expansion followed in the wake of an expansion of Rs. 65.49 crores in money supply during 1955-56 which combined with a decline in real national income in that year, had already created inflationary potential in the economy. The ten per cent increase in money supply during 1956-57, therefore, aggravated the situation.

The proportion of currency circulation, which is the more active component of money supply, increased from 66.9% to 68.4% over the year. At the same time, there was a shift in favour of demand deposits as against time deposits. The proportion of the former to total increased from 71.00% in June, 1956 to 72.23% in June, 1957 indicating an increase in liquidity preference in the economy. There was thus a more intensive use of available media of exchange.

The supply position, on the other hand, showed only minor improvement and appeared to lag far behind monetary expansion. The total yield of 1955-56 rice crop declined by 6.6 per cent implying a much larger decline in marketable supplies. As consumption and hoarding during the

first half of 1956 had absorbed the bulk of available supplies the latter half of 1956 witnessed a very difficult food situation in East Pakistan. Though the official estimates regarding rice production during 1956-57 showed an increase of 7.7% over 1955-56, the price trends, soon after the harvesting season, indicated serious shortages which could only be met by stepping up imports. Similarly in the case of wheat, despite a net increase of 5% in production, the non-fulfilment of procurement targets by the Government and the rising prices of wheat indicated a deficit in supplies.

The domestic industrial sector, though still relatively small in size, could be expected to play an important role in improving the supply position through enhanced production. However, the increasingly difficult position with regard to availability of raw materials and spare parts adversely affected the output in this sector as well. Though industrial production showed some increase during 1956 due mainly to the setting up of new units, the rate of increase was not maintained.

The availability of imported consumer goods and raw materials appeared to have declined during the year.

The continued monetary expansion in the face of a restricted supply position gave rise to inflationary pressures in the economy. The price level recorded an increase over the year covering a wide area of daily requirements and the cost of living index for industrial workers registered further advances at all the important centres.



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

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





**BALANCE  
SHEET  
AND  
PROFIT  
AND  
LOSS ACCOUNT**

**AS AT 30TH JUNE 1957**

## ISSUE

	R.s.	A.s.	P.s.	R.s.	A.s.	P.s.
Notes held in the Banking Department	11,68,23,261	0	0			
Notes in circulation	320,17,14,442	0	0			
Total notes issued.				331,85,37,703	0	0
Total Liabilities				331,85,37,703	0	0

- (1) Ratio of Gold Coin and Bullion, Silver Bullion and Approved Foreign Exchange to total notes issued: 43.96 per cent.
- (2) Gold to the extent of Rs. 4,20,71,400-0-11 has been valued at 0.549191 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 Section 30 (2) of the State Bank of Pakistan Act, 1956.



AT AS 30TH JUNE, 1957

# DEPARTMENT

## ASSETS

	Rs.	As.	Ps.	Rs.	As.	Ps.
I.A. Gold Coin and Bullion	11,33,41,190	8	8			
Silver Bullion	Nil					
Approved Foreign Exchange	85,92,46,552	2	4			
India notes representing assets receivable from the Reserve Bank of India	43,02,29,918	4	4	140,28,17,660	15	4
B. Rupee Coin	5,62,39,420	1	4			
Government of Pakistan Securities	180,04,74,791	15	0			
Internal bills of exchange and other commercial paper	Nil			185,67,14,212	0	4
II. Held with the Reserve Bank of India pending transfer to Pakistan:—						
Gold Coin and Bullion	19,02,101	12	3			
Sterling Securities	4,40,62,619	6	4			
Government of India Securities	1,00,90,488	4	8			
Rupee Coin	29,50,620	9	1	5,90,05,830	0	4
Total Assets				331,85,37,703	0	0

## BALANCE SHEET

## BANKING

## LIABILITIES

	Rs.	As.	Ps.
Capital paid up	3,00,00,000	0	0
Reserve Fund	3,00,00,000	0	0
Deposits:—			
(a) Central Government	62,27,56,706	4	10
(b) Provincial Governments	5,05,64,768	11	8
(c) Banks	16,10,32,062	1	0
(d) Others	9,30,91,321	7	7
Bills Payable	1,56,21,793	5	5
Other Liabilities	11,75,01,149	3	11
<b>Total Liabilities</b>	<b>1,12,05,67,801</b>	<b>2</b>	<b>5</b>



AS AT 30TH JUNE, 1957—*contd.*

## DEPARTMENT

### ASSETS

	Rs.	As.	Ps.
Notes	11,68,23,261	0	0
Rupee Coin	7,326	0	0
Subsidiary Coin	37,392	0	2
Bills Purchased and Discounted:—			
(a) Internal	<i>Nil</i>		
(b) External	<i>Nil</i>		
(c) Government Treasury Bills	6,35,651	3	0
Loans and Advances to Governments	<i>Nil</i>		
Provincial Governments' Debtor Balances	<i>Nil</i>		
Other Loans and Advances	9,39,70,000	0	0
Investments	78,53,68,231	7	10
*Other Assets	12,37,25,939	7	5
Total Assets	1,12,05,67,801	2	5

NOTE: \*This includes an amount of Rs. 3,88,67,999-6-9 debited to Suspense Account being the difference in exchange on remittances to India through our Main Account with the Reserve Bank of India and will be covered when this account is written up in terms of Clause VI of the Payments Agreement with India.

## PROFIT AND LOSS

### INCOME

Interest, Discount, Exchange, Commission, etc.

### EXPENDITURE

Establishment

Directors' and Local Board Members' Fees and Expenses

Auditors' Fees

Rent, Taxes, Insurance, Lighting, etc.

Law Charges

Postage and Telegram Charges

Remittance of Treasure

Stationery, etc.

Security Printing (Cheques, Note Forms, etc.)

Depreciation and Repairs to Bank's Property

Agency Charges

Contributions to Staff and Superannuation Funds

Miscellaneous Expenses

Net available Balance

Total

Amount set aside for payment of Dividend at the rate of 5  
per cent per annum

Amount transferred to the Reserve Fund

Surplus payable to the Central Government

Balance carried forward

Total



# ACCOUNT

## FOR THE YEAR ENDED

30th June, 1957			30th June, 1956			30th June, 1955		
Rs.	As.	Ps.	Rs.	As.	Ps.	Rs.	As.	Ps.
5,32,42,876	9	3	3,76,03,072	9	11	3,24,00,405	5	10
83,94,982	10	0	70,44,800	13	6	63,82,146	10	6
1,18,199	8	6	1,05,133	3	9	1,08,560	7	6
9,000	0	0	8,000	0	0	8,000	0	0
2,21,772	5	11	1,53,482	7	11	1,88,043	13	11
79,068	15	0	84,072	11	3	24,204	10	0
95,725	8	11	1,04,178	1	4	95,832	8	7
4,41,956	13	9	7,31,276	13	7	3,83,308	10	3
2,44,649	2	6	1,99,524	2	1	1,87,732	10	10
62,89,595	0	8	48,02,186	11	1	36,00,000	0	0
8,63,521	2	8	7,76,840	11	8	5,85,193	7	5
9,23,980	15	1	9,56,160	5	11	8,59,121	6	3
Nil			Nil			Nil		
12,02,401	3	2	12,84,060	4	6	7,37,492	0	0
3,43,58,023	3	1	2,13,53,356	3	4	1,92,40,769	0	7
5,32,42,876	9	3	3,76,03,072	9	11	3,24,00,405	5	10
15,00,000	0	0						
Nil								
3,28,58,023	3	1						
Nil								
3,43,58,023	3	1						

## RESERVE FUND ACCOUNT

	Rs.	As.	Ps.
By Balance on 30th June, 1957	3,00,00,000	0	0
By transfer from Profit and Loss Account		<i>Nil</i>	
Total	3,00,00,000	0	0

SAID AHMED,  
Chief Accountant.

SHER JANG KHAN,  
Deputy Governor.

ABDUL QADIR,  
Governor.

Dated the 25th day of July, 1957



## 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, 1957.

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 adjustment has been made in the Accounts for the difference in exchange now amounting to Rs. 11,32,59,860-14-4 (including Rs. 3,88,67,999-6-9 referred to in the note below the Banking Department Balance Sheet) in respect of the India rupee balances of the State Bank in the books of the Reserve Bank of India on the date of devaluation of India rupees in 1949 in accordance with the terms of Clause VI of the Payments Agreement with India. 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.

FORD, RHODES, PARKS & CO.	} Auditors
RAHIM JAN & CO.	
PRICE WATERHOUSE PEAT & CO.	

Karachi, the 25th day of July, 1957.





# STATE BANK OF PAKISTAN

(CENTRAL DIRECTORATE)

*Karachi, the 9th August, 1957.*

## NOTIFICATION

No. Sy. 2—It is hereby notified that the 9th Annual General Meeting of the Bank will be held on Saturday the 7th September, 1957 at the State Bank of Pakistan, Dacca at 5 p. m. The following business will be transacted.

- 1) The Balance Sheet as on the 30th June, 1957 and the Profit and Loss Account of the Bank for the year together with the Auditors Report will be read and considered.
- 2) Auditors will be elected and their remuneration fixed. Messrs. Ford Rhodes Parks & Company, Messrs. Rahim Jan & Company and Messrs. Price Waterhouse Peat & Company the retiring auditors being eligible, offer themselves for re-election, their remuneration being fixed at Rs. 3,000 each.

SHER JANG KHAN  
Deputy Governor,

# STATE BANK OF PAKISTAN

CENTRAL DIRECTORATE

Islamabad, 10th March 1957

## NOTIFICATION

It is hereby notified that the 31st Annual Meeting of the Board will be held on 24th May 1957 at the State Bank of Pakistan, Lahore. The following business will be transacted:

The Balance Sheet as on the 30th June 1956 and the Profit and Loss Account of the Bank for the year ending with the Auditor's Report will be read and considered.

Auditors will be elected and their remuneration fixed. Messrs. Ford Rhodes Parks & Company, Messrs. Rahim Jan & Company and Messrs. Price Waterhouse Poon & Co. may the retiring auditors being eligible offer themselves for re-election their remuneration being fixed at Rs. 2,000 each.

SHER JANG KHAN

Deputy Governor



**PROCEEDINGS** OF THE NINTH ANNUAL  
GENERAL MEETING OF THE  
SHAREHOLDERS OF THE  
STATE BANK OF PAKISTAN.

The 9th Annual General Meeting of the shareholders of the State Bank of Pakistan commenced at 5-00 P.M. on the 7th September, 1957. The meeting was attended by 175 shareholders in person or by proxy.

Mr. Abdul Qadir, the Governor of the State Bank of Pakistan took the Chair and addressed the meeting as follows:

“The prescribed quorum being present the proceedings of the meeting now commence. The Secretary to the Central Board may read the notice convening this meeting.”

Mr. A. K. Naziruddin Ahmed, Secretary of the State Bank of Pakistan read out the notice convening the meeting.

2. The Chairman then addressed the meeting as follows:—

“It is a pleasure to welcome you to this Ninth Annual General Meeting of the shareholders of the State Bank of Pakistan. The first item on the Agenda is the consideration of the Accounts of the Bank and

the Report of the Central Board of Directors for the year 1956-57. Printed copies of the Accounts and the Report are before you and I request you to take them as read.

The Bank's income for the year amounted to Rs. 532.43 lakhs and expenditure to Rs. 188.85 lakhs leaving a net profit of Rs. 343.58 lakhs. The profit is the highest earned by the Bank for any year so far. The Report before you adequately deals with the variations in the figures from those of last year and as such I need not cover this ground. I might, however, point out that following the new provisions of the State Bank of Pakistan Act of 1956 it has been possible for the Bank this year to raise the rate of dividend to 5 per cent as against  $4\frac{1}{2}$  per cent paid last year. You will observe from the Report that the Bank has made satisfactory progress.

The rate of expansion in the world economy was considerably slowed down during the year on account of limitations of productive capacity and labour supply. Industrial production rose by only about  $4\frac{1}{2}\%$  during 1956 as against 10% in 1955. At the same time inflationary pressures intensified in most countries as spending in excess of available resources became wide-spread. Efforts to restrain inflationary pressures mainly took the form of restrictive monetary and credit policies. Following the growth in the general level of economic activity, there was a further expansion in world trade. Progress in this respect was achieved in spite of the disruptive effects of the Suez



Canal blockade and reflected the efforts of individual countries to meet their payments difficulties through basic remedies rather than by the intensification of restrictions on trade and payments. The mobilisation of international reserves through extensive use of the resources of the International Monetary Fund by its members was also an important factor in sustaining the high level of world trade. The disequilibrium in the balance of payments of several countries, however, tended to persist. While West Germany continued to enjoy mounting surpluses the payments position of France remained under pressure. An encouraging feature after persistent weakness of many years, was the improvement, in the world commodity markets of agricultural products particularly textile fibres. However, the rise in export prices of primary producing countries as a group was more than offset by a rise in import prices due to inflationary pressures in industrially developed countries. As a result their terms of trade suffered a further setback.

As stated in the Directors' Report the economic situation in Pakistan was subjected to serious strains during the year. The problem centred around the lower production of cash crops and the food shortage which turned out to be even more serious than in 1952-53. About 1.5 million tons of foodgrains had to be imported. Apart from the imports under the aid programme, this entailed heavy foreign exchange expenditure out of our own resources, thus upsetting the balance of payments position. But for this extraordinary drain, the increase in foreign ex-

change reserves recorded during 1955-56 might have allowed substantial increase in the much needed imports of raw materials and consumer goods. On the domestic front, the continued monetary expansion without a corresponding increase in availabilities aggravated inflationary pressures.

Here, I could not over-emphasize that our main problems owe their origin to low production. Though considerable sums of money have been sunk into various development projects since partition, the result in terms of increased production has not been encouraging. The most disconcerting fact that requires attention in this connection is the behaviour of our agricultural production. The level of wheat and rice production has hardly changed since partition. This is despite the various measures taken during these years to increase agricultural productivity. As far as the cash crops are concerned there was a decline in the production of both cotton and jute during the year. The unsatisfactory performance of the agricultural sector has been due partly to natural calamities like droughts and floods and partly to deficient agricultural organisation. Here I may call your attention to an important fact: the increase in the area under cultivation has not been commensurate with the increase in irrigation facilities. This is because the progress on the various colonisation schemes has been disappointingly slow. The consequences of a rather static agricultural production in the face of a continued growth in population and mounting development expenditure have been disturbing for the economy.



The increase in population and growth in money incomes have led to increased consumption of foodgrains within the rural areas, reducing the marketable surplus thus pushing up the food prices. In a subsistence economy like ours with extremely low living standards, the demand for foodgrains is not so inelastic as is generally supposed. The reduction in the marketable supplies of foodgrains has given rise to an acute food problem. The steady increase in industrial production over the years has provided some relief to the price situation but the rate of increase in this field also seems to be tapering off. For example, the index of industrial production rose by only 15% during 1956 as compared to 28% in the previous year. Industrial production actually declined in some cases in the first quarter of 1957. The levelling off in industrial production has been due in many cases to the difficulties in the way of industries working at their full capacity.

Now if I were to single out two problems of the year which transcend all others in importance I would name balance of payments and inflation. It is on these two vital problems of external balance and internal monetary stability that I propose to dwell on this occasion.

To start with the balance of payments problem, the position which had shown marked improvement during the twelve month period immediately following devaluation caused serious concern during the year. Despite the fact that supply of goods under aid programmes increased and expenditure on private imports was restricted, the 'gold, dollar and sterling'

reserves declined by Rs. 19.41 crores. The current account deficit (excluding aid) during 1956-57 amounted to Rs. 26.66 crores as against a surplus of Rs. 35.86 crores in 1955-56 indicating a deterioration of Rs. 62.52 crores.

A most disturbing feature was the decline in foreign exchange earnings. At Rs. 190.98 crores during 1956-57, total receipts (excluding official donations) denoted a decline of 8% as compared to the previous year and were, in real terms, only slightly above the low level reached in 1954-55. The earnings were thus back to the pre-devaluation level. This reduction in earnings was notwithstanding a distinct improvement in the export prices of our major commodities during the year and was due almost entirely to the reduction in the volume of raw jute and raw cotton exports. Thus the problem of increasing our earnings pivoted around the adequacy of the cash crop production. No effort should be spared to expedite schemes for expanding production of the cash crops.

In the case of raw jute the government have adopted, for the last so many years, the policy of licensing acreage to control production in the interest of a balance in the demand and supply position and to ensure a reasonable return to the grower. It is evident that in the last two seasons production has been rather restricted. Experience of the last two years has shown that greater production could have been absorbed without much fall in prices. In the wake of



devaluation there was a good case for allowing a substantial increase in raw jute production. Prices of raw jute have stayed throughout 1956-57 at relatively high levels. In so far as our experience during 1955-56 is a guide, the international demand for our jute at the present levels of supplies and prices appears to be elastic. We can, therefore, hope to expand our earnings from jute by stepping up the volume available for export. Somewhat lower raw jute prices would at the same time help the domestic manufacturers and also restore the price ratio between rice and jute. The threat posed by jute substitutes should never be lost sight of. In the long run we can hope to increase the volume of our raw jute and jute goods exports only if the world demand for these products shows a steady increase.

I must refer in passing to the significant increase in earnings from cotton manufactures which rose from Rs. 3.18 crores in 1955-56 to Rs. 9.51 crores in 1956-57. The progress in this respect has been remarkable. Earnings from jute goods, however, showed only a slight increase of Rs. 1.67 crores.

Though the decline in earnings during the year was appreciable, the main cause of deterioration in the external position was the sharp rise of Rs. 44.51 crores in payments. Nearly 85% of this increase in turn reflected a rise in Government payments. Higher Government expenditures abroad cannot be explained wholly in terms of foodgrains imports as other payments also appear to have registered an increase of 25%.

Thus, even apart from outlays on foodgrains, the declining trend in Government external payments noticed since 1952-53 has been reversed. This in the face of limited, even shrinking foreign exchange resources, has seriously affected the allocations for the private sector.

Private import payments also rose during the year but the increase was quite modest. In fact it was probably more than accounted for by higher import prices, so that the actual volume of imports out of our own foreign exchange resources registered a decline. The latest figures indicate that there was an increase of 14 per cent in over-all import price index between the final quarter of 1955 and of 1956. This increase which was partly due to the increase in freight rates following the blocking of the Suez Canal was mainly responsible for a further deterioration in the terms of trade which came down to the low level of 60.1 (April 1948—March 1949=100) in October-December, 1956. Worsening terms of trade were, therefore, not the least important cause of our payments difficulties.

While on the balance of payments, I may mention that the actual gap between our foreign exchange resources and spending is much larger than is indicated by the size of the current account deficit. This is met largely from the availabilities under foreign aid programmes. The flow of foreign aid goods which had reached the figure of Rs. 42 crores during 1955-56 increased further to Rs. 64 crores



during 1956-57. At this level foreign aid accounted for nearly 25% of the total available foreign exchange resources. It was noteworthy that about 60% of total aid utilizations during the year were, however, for the import of foodgrains. U.S. commodity imports of industrial raw materials, machinery and consumer goods which started flowing in 1955 have also become quite large. We are grateful to the U.S.A. and the Colombo Plan countries for their economic assistance to this country. In spite of the increase in imports under the aid programmes, the actual availabilities of imported goods have hardly improved over the last few years.

I now propose to turn to the problem of inflation. Inflationary pressures have been increasing in our economy. Money supply increased by Rs. 45 crores primarily under the influence of government financial operations representing an addition of 10 per cent to the circulation media. Coming, as it did, immediately after an expansion of Rs. 65 crores during 1955-56, the additional purchasing power had a perceptible effect on prices. On the goods side real national income actually declined during 1955-56, while recovery in production during 1956-57 appeared to be halting and uneven in various sectors. The import policy continued to be restrictive. The terms of trade continued to move against us. The availabilities could, therefore, hardly improve by a fraction of the rise in money supply. At the same time, there was more than a proportionate fall in marketable supplies of

foodgrains. The resulting imbalance was thus reflected in the deteriorating price situation.

We have no price indices sufficiently representative of the situation. There is no general index of wholesale prices though a number of indices for individual commodities in the agricultural group are prepared. The only cost of living index available relates to industrial workers. It would not be appropriate to treat it as representative of the general price situation affecting different social or economic strata of the population.

We have, therefore, perforce to depend upon available data regarding individual prices. Even this data, incomplete as it is, provides some evidence of the increase in the general price level. The rise in food prices is too well-known to need any special mention. The prices of imported cotton textiles showed a marked increase ranging between 20.8% and 46.1% for different varieties. Domestic cloth prices have also been on the upgrade recently after showing a decline during the last few years. The price rises in other groups were also large. The cost of living index reflected to some extent the increase in the price level. The cost of living index for Karachi advanced from 108 to 118 during the year. Similarly at Narayanganj, the index stood at 115 in June 1957 as compared to 112 a year earlier.

It is of the utmost importance to take all possible measures to combat the growing threat of inflation in the country. Inflation can be checked



either by reducing money demand or by increasing the supply of goods through imports and/or domestic production.

A survey of Government expenditure in past years would reveal a rising trend both in the central and provincial spheres. Unless Central and Provincial Governments try to manage their administrations within their resources, stability can never be ensured. Efforts should be made to curtail Government expenditure. Non-developmental expenditure should be kept to the minimum and all expenditures should be carefully scrutinised with a view to effecting such economies as are not likely to detract from efficiency. It is satisfactory to note that the Central Government has appointed an Economy Committee to survey the Central expenditure and suggest measures of economy—a lead which could well be followed by Provincial Governments.

The proportion of tax proceeds to national income is very low in Pakistan and compares unfavourably with other countries. Moreover, even as a safeguard against the adverse effects of financing the development programme partly through created money it is essential that the tax system should bring back a substantial portion of newly created incomes in the form of higher tax yields. Certain classes have benefited greatly in recent years on account of restrictive import policies and government's industrial promotion measures but have contributed relatively little to national revenues. Though tax rates have been high

in general there has been widespread tax evasion. It is necessary to suck out at least a part of the excessive purchasing power in the economy through taxation in the interest of stability. Disincentive effects of higher taxation are often exaggerated. It is necessary to take a realistic view of the whole situation. Despite the present tax rates which are termed high, the inequalities of income in Pakistan have continued to grow.

Rise in Government expenditure has necessitated recourse to deficit financing. Borrowing by Government from the Central Bank of the country is not necessarily undesirable. The consequences that follow from deficit financing differ in different economic situations. Deficit financing, even though it implies an expansion in money supply, need not always lead to inflation. In fact a growing economy requires some increase in money supply in order that its real resources may be brought into fuller use and if deficit financing serves to bring this about it would be consistent with price stability. It is only when deficit financing exceeds the availability of real resources that strains are set up. So long as the economy has reserve capacity, meaning thereby that there are idle resources which have only to be brought together to expand output, there may be no serious objection to a policy of deficit financing. Similarly there may be scope for deficit financing in cases where it is feasible to match the increased money supply by importing larger quantities of consumer goods.

Conditions for deficit financing were not so unfavourable in Pakistan sometime back. The food



situation was satisfactory. We had accumulated sizeable foreign exchange reserves which were for some time available for increasing import of consumer goods. Moreover, industrial production was rising rapidly as a result of the speedy completion of several industrial units. Large tracts of land were lying waste. There was a good deal of unemployment and a greater degree of under-employment. Resort to created money by the Government for pressing forward with the task of development was therefore justifiable in those circumstances. Conditions have, however, changed markedly now and that is the reason why it has become necessary to cut down dependence on created money. The food situation has been giving cause for anxiety. The balance of payments position is tight and there is hardly any scope for liberalising the import of consumer goods. The rate of increase in industrial production has also slowed down. What is of greatest significance, the economy now no longer seems in a position to absorb large doses of deficit financing. The economy needs a breathing space. The emergence of inflationary pressures which have been gathering momentum for some time now and the steadily rising price level clearly indicate that monetary expansion has begun to outstrip the availability of real resources so that it has become imperative now to check expansionary forces.

Quite a substantial part of the money is lying idle with the people. This represents a potential threat and is likely to aggravate inflationary pres-



asures for the idle funds may either be used in increasing consumption or for engaging in speculative transactions. It would be useful, therefore, to try to mop up as large a portion of such money balances as may be possible for productive purposes. A part of these funds could be mobilised through taxation. What is more important, however, opportunities should be provided to the private sector to invest these funds in a way so as to add to domestic production. Private investment activity usually leads to an increase in production much more quickly than public investment and is preferable in the context of present conditions. Facilities should, therefore, be provided to private enterprise to take up schemes of the public sector or to replace investments of government agencies wherever practicable.

It is also incumbent on the private sector to play its part in curbing inflationary pressures. The importance of saving for economic development in under-developed economies is well recognised but it assumes added significance when the country is suffering from inflationary pressures. It is the patriotic duty of every citizen to avoid excessive consumption expenditure and try to save more. By doing this we would be reducing the pressure on the available supply of goods and services in the economy thus helping in restraining inflationary pressures.

Simultaneous with efforts aimed at reducing the money demand, it is essential to secure an increase in the supply of goods. This may be brought about



by higher production at home and/or by more liberal imports. The scope for increasing flow of imports seems to be extremely limited at present due to the difficult balance of payments position and more urgent requirements of defence and development. The possibilities of increasing the inflow of consumer goods under the economic aid programme deserve to be examined. At the same time an all-out effort should be made to step up production in the country. Everyone should work harder and produce more, for increased production is in fact the only ultimate solution to the problem of inflation.

A stage appears to have been reached now when it has become urgently necessary to review and rephrase our development programme so as to avoid the harmful effects of inflationary pressures. The aim of all development is to raise the standard of living of the general masses. It is of the utmost importance, therefore, to keep on watching whether the economic programme that is being pursued is producing the desired end-result. In case this is not so and living standards deteriorate instead of improving, the very aim of development is defeated. The soundness of a development programme is not to be judged from the number of factories that may spring up or the number of dams that may be under construction but from the effect it produces on the standard of living of the masses. In all democratic countries, the purpose of planned economic development is not to provide windfall gains for any particular group or groups of population but to increase general productivity and the real income



of the entire community. Now exactly the reverse of this begins to happen if inflationary tendencies are allowed to gain ascendancy in the economy.

The chief aim of our economic policy should be to strike a balance between development and stability so as to achieve a balanced economic growth. An attempt to expand too fast would be inconsistent with this objective as in addition to promoting inflation it is bound to create excesses and distortions, over-capacity in some fields and deficiencies in others leading to lack of balance and various instabilities. I might mention that this problem is not peculiar to Pakistan alone; almost the world over the challenging problem to-day is one of reconciling development and full employment with monetary stability. The objective that we should have before us should be that of a dynamic expanding economy. It is necessary, however, to ensure monetary stability to facilitate economic growth itself at the highest rate and to sustain it over a period of years. The policy of resistance to inflation that I am advocating is intended not to slow down economic progress but to stimulate it by creating conditions more favourable for sustained economic growth and removing those which interfere with the smooth functioning of the economy. There is no inherent fundamental incompatibility between economic stability and economic development; the problem is chiefly one of achieving the right balance. Once this is done, these two objectives are more apt to complement each other rather than be in constant conflict.

In the context of the existing situation the



formulation of correct short-term policies to tide over the present difficulties is of greater importance than anything else. For it is only if the price situation is controlled and confidence is restored that true economic progress can take place. In case the development programme is not phased properly the objectives of the programme would themselves be impaired and their fulfilment in real terms will be rendered almost an impossibility. When I say that there is need to pay greater attention to short-term policy formulation I do not deny the value of long-term planning. The value of a plan in our conditions should be that of providing a frame-work in which annual plans, based on a realistic appraisal of available resources, should be fitted in. The tempo of development from year to year should be regulated keeping in view the trends in the economic situation. Development expenditure should be regulated from year to year with due regard to the economic situation prevailing at the time. Basic schemes of over-riding importance should be carefully selected and accorded highest priority while those of less urgency should be taken up as and when real resources are available. Simultaneously, attempts should be made to step up the rate of voluntary savings and to remove all bottlenecks that hold up progress. It is only then that real progress will be achieved, progress that will mean not the enrichment of the few but prosperity for all.

As for monetary policy to check inflation, the State Bank of Pakistan has given consideration to the problem and has examined whether the employ-

ment of a restrictive monetary policy is called for in the present circumstances. It has, however, come to the conclusion that as incomes are being generated largely by government financial operations a restrictive monetary policy will not be helpful and may even cause adverse repercussions on productive activity. The traditional instruments of monetary policy like the Bank Rate developed in the advanced countries of the West are supposed to work through their effect on the level of bank advances. In an economy like Pakistan where bank credit forms hardly 5% of the national income, the effect of such measures is not likely to be substantial. The effectiveness of general credit control weapons in a country like Pakistan is further circumscribed by the imperfections of the money market. Banking system is not widespread. Currency rather than bank money forms the major portion of domestic money supply. Large-scale open-market operations are not possible either in government securities or in bills. The use of quantitative credit control at this stage may also come into direct conflict with the long-term objective of developing the institutional framework through which a flexible monetary policy may work, for it may well disrupt the still undeveloped gilt-edged market. In fact, there seems to be urgent need for expanding credit facilities in the fields of agriculture and industry so as to facilitate higher levels of production and remove bottlenecks in distribution.

As you know the State Bank has been taking special interest in this problem for the last few years



and I am glad to report that both our schemes of an Agricultural Bank and an Industrial Credit and Investment Corporation are nearing fruition. Legislation for the establishment of the Agricultural Bank has already been passed and administrative arrangements are presently in hand to enable it to start its operations. Apart from sponsoring the scheme of the Agricultural Bank, the State Bank has also been assisting the co-operative credit movement in the country by making its funds available to the cooperative banks at concessional rates. The State Bank is keenly interested in the re-vitalization of the cooperative movement in the country for the cooperatives, if soundly run and efficiently managed, would help greatly in the provision of much-needed rural finance and can also facilitate the task of the Agricultural Bank by working as its intermediaries at places where it has no branches of its own. In fact, the Agricultural Bank is intended to supplement the existing facilities in the field of agricultural finance; there is no intention of competing with the cooperatives for the field is so wide that both these institutions can work in unison for the common good of the rural population and for raising agricultural productivity. As for industrial finance, negotiations with the World Bank have practically concluded and the Pakistan Industrial Credit and Investment Corporation is likely to come into being shortly. It will help significantly in extending the internal and external facilities for industrial finance in the country.

29. The State Bank has kept a vigilant eye on the

credit situation. Last year, while the expansion in bank credit during the busy season was normal, the retirement in the following slack season was extremely slow. It was apprehended that the banks were committing their funds for non-seasonal finance which may be of a speculative nature. The State Bank, therefore, with a view to checking the hoarding of imported goods as a dis-inflationary measure and so as to direct credit to more essential purposes, issued a directive to the banks to reduce their advances against certain commodities which were most likely to be subjected to speculative activity.

Before I conclude I wish to point out that the difficulties with which we are faced today are not insurmountable. The country has made solid progress over the last few years and overcome serious difficulties. You would appreciate what a long way we have come since we attained independence. Our country was almost wholly agricultural at that time with little domestic capacity for the utilisation of our raw materials. On the other hand, there was an almost complete dependence on imports for meeting our consumer goods requirements. The economy of the country was, therefore, extremely vulnerable to international economic fluctuations. This was vividly demonstrated during the Korean boom and post-Korean recession when changes in the climate of the world markets were quickly transmitted to the domestic economy leading to undesirable economic consequences. The picture is markedly different now. The struc-



tural changes that have taken place in the economy during the last ten years, particularly in the field of industry, have reduced this vulnerability. The diversification of the economy as a result of the growth of industries has increased the elasticity of output and the larger production base now provides a far more favourable environment for domestic economic policies to succeed. The increased consumption of raw materials at home has also imparted an element of strength to our commodity markets. At the same time the increased production of import competing goods, apart from reducing our dependence on foreign sources of supply, has resulted in providing greater employment at home. These are solid achievements. Our objective is to press forward and achieve greater progress. If in the pursuance of our aims, we have run into certain difficulties there is no reason to lose heart. What is required is a dispassionate and realistic assessment of our present problems and a bold effort to solve them. This will not only enable us to consolidate our gains but will open up new vistas of progress and prosperity."

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 declared that the consideration of the Report and 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 1957-58.

Director Kasim Dada moved the following resolution which was seconded by Director Wahiduzzaman.

“RESOLVED that

(a) M/s. Ford, Rhodes, Parks & Company, (b) M/s. Price Waterhouse Peat & Company and (c) M/s. Rahim Jan & Company be re-appointed 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. Ford, Rhodes, Parks & Co. .. Rs. 3,000/-

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

M/s. Rahim Jan & Co. .. Rs. 3,000/-

which is the same as was fixed last year”.

The Resolution was carried.

5. Mr. Quazi Ashraff Hossain, a shareholder of the Bank moved a vote of thanks to the Chair which was seconded by another shareholder Lt. Col. Dr. Muhammad Nural Ameen. The motion was passed unanimously.

Thereafter the proceedings terminated.



**LIST OF SCHEDULED BANKS IN PAKISTAN**  
(as on 30th June, 1957).

- |                                   |  |
|-----------------------------------|--|
| 1. AMERICAN EXPRESS CO. INC.      | 16. NETHERLANDS TRADING SOCIETY.             |
| 2. BANK OF BAHAWALPUR LTD.        |  |
| 3. BANK OF CHINA.                 | 17. UNITED COMMERCIAL BANK LTD.              |
| 4. BANK OF INDIA LTD.             |  |
| 5. CANARA BANK LTD.               | 18. NATIONAL BANK OF PAKISTAN.               |
| 6. CENTRAL BANK OF INDIA LTD.     | 19. BANK OF TOKYO LTD.                       |
| 7. CHARTERED BANK.                | 20. AUSTRALASIA BANK LTD.                    |
| 8. EASTERN BANK LTD.              | 21. ORIENTAL BANK OF COMMERCE LTD.           |
| 9. GRINDLAYS BANK LTD.            |  |
| 10. HABIB BANK LTD.               | 22. PUNJAB NATIONAL BANK LTD.                |
| 11. STATE BANK OF INDIA.          | 23. PUNJAB PROVINCIAL CO-OPERATIVE BANK LTD. |
| 12. LLOYDS BANK LTD.              |  |
| 13. MERCANTILE BANK OF INDIA LTD. | 24. HIND BANK LTD.                           |
| 14. MUSLIM COMMERCIAL BANK LTD.   | 25. SOUTHERN BANK LTD.                       |
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# THE HISTORY OF THE

REIGN OF KING CHARLES THE FIRST

IN WHICH ARE CONTAINED THE

CAUSES, THE CONDUCT, AND THE CONSEQUENCES

OF THE CIVIL WARS

IN GREAT BRITAIN

FROM THE YEAR 1629 TO 1649

BY SAMUEL JOHNSON

IN TWO VOLUMES

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