

RESERVE BANK OF INDIA

REPORT
OF THE
CENTRAL BOARD OF DIRECTORS
FOR THE YEAR ENDED THE 31st DECEMBER 1938.

*To be presented to the shareholders at the 4th Annual
General Meeting to be held at Madras on the 6th
February 1939.*

1939.

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

For the year 1st January—31st December 1938.

In accordance with section 14 of the Reserve Bank of India Act, 1934, the Central Board of Directors presents herewith to the Shareholders the Annual Report and the Accounts of the Bank for the year ended the 31st December 1938.

ANNUAL ACCOUNTS.

After payment of expenses of administration and provision for sundry liabilities and contingencies, the net profit amounts to Rs. 38,45,137 0 8

Of this amount, the sum of Rs. 17,50,000 0 0 will be utilized for payment to shareholders of a dividend- at the rate of 39 per cent. per annum being the cumulative rate fixed by the Central Government in accordance with section 47 of the Reserve Bank of India Act, 1934.

leaving a surplus of Rs. 20,95,137 0 8
for payment to the Central Government in accordance with the said section.

The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Mr. P. K. Ghosh of Calcutta and Messrs. Sastri & Shah of
Auditors.

Madras who were duly elected as auditors of the Bank for the year under review by the shareholders at their meeting held at Delhi on the 7th February 1938 in accordance with section 50 (1) of the Reserve Bank of India Act, 1934. The present auditors offer themselves for reappointment.

Constitution of the Central Board.

In pursuance of clause (d) of sub-section (1) of section 8 of the Act, the Central Government in May 1938 **Elected and Nominated Directors.** nominated Mr. K. Sanjiva Row, C.I.E., to be a director of the Central Board in place of Mr. A. J. Raisman, C.S.I., C.I.E., I.C.S. Subsequently in November 1938 Mr. Raisman was renominated as Director under the same clause in place of the former.

Section 15 (4) of the Act prescribes that on the expiry of each successive period of twelve months after the nomination of Directors under section 15 (3), two Directors shall be elected until all the Directors so nominated have been replaced by elected Directors. The Bombay, Calcutta, Madras and Rangoon registers had been successively selected by lots for purposes of such elections in the preceding years. The election in the remaining Delhi register was held in November 1938 to replace Khan Bahadur Syed Maratib Ali, C.B.E., and Mr. Satya Paul Virmani, who had been nominated as Directors by the Central Government to represent that area. Khan Bahadur Syed Maratib Ali did not stand for election. Lala Shri Ram, who was already a nominated Director under section 8 (1) (b) and Mr. Satya Paul Virmani were duly elected in the two vacancies and assumed office in December. The former thereupon resigned his seat on the Board obtained by nomination and Khan Bahadur Syed Maratib Ali was nominated by the Central Government to take his place.

During the year under report 6 **meetings** of the Central Board were held, of which two were held in **Calcutta**, two in Bombay, one in Delhi and one in Madras. The Committee of the Central Board met 27 times in Bombay, 23 times in Calcutta and once in Madras.

As stated above there was **one** Local Board election during the year in the Delhi (Northern) Area in **November** preliminary to the election of Directors in that area and the **new** members of the Local Board took office in December.

The accompanying tables show the distribution of the Bank's shares on the 31st December 1937 and the 31st December 1938.

	Distribution of shares on the 31st December 1937.	Distribution of shares on the 31st December 1938.
Bombay	201,448	205,508
Calcutta	125,216	122,800
Delhi	93,919	93,314
Madras	60,221	59,951
Rangoon	19,196	18,427

Number of share-holders on the 31st December 1937. Number of share-holders on the 31st December 1938.

Bombay	21,467	20,765
Calcutta	14,525	13,801
Delhi	15,669	14,900
Madras	9,142	8,708
Rangoon	1,767	1,603
Total ..	62,570	59,777
Average number of shares held by each shareholder	8.0	8.4

In last year's report mention was made of the decline in the number of shareholders since the inception of the Reserve Bank in April 1935. As is evident from the figures given above, this tendency has continued during the year under report. Another characteristic feature of the distribution of shares is the increase in the number in the Bombay area at the expense of other areas, principally Calcutta and Rangoon. So far Government have taken no action on our suggestion for the limitation of the maximum holding of shares referred to in last year's report.

The Reserve Bank's own buildings in Bombay and Rangoon are nearing completion and it is expected that the new buildings in those cities will be occupied by the Bank early in 1939.

Bank's Premises.

As indicated in last year's report the Reserve Bank in terms of sections 22, 24 and 26 (1) of its Act issued in January 1938 its own notes of the denominations of Rs.5 and Rs.10. This was followed later during the year by the issue of bank notes of the denominations of Rs.100, Rs.1,000 and Rs.10,000. The Rs.1,000 and Rs.10,000 notes followed closely the patterns of the Government of India notes of these denominations. The Rs.100 note, however, was a new design and a press communique giving a detailed description of this design was issued for the information of the public.

Bank Notes.

In accordance with clause 6 (1) of Part II of the India and Burma (Burma Monetary Arrangements) Order, 1937, the Reserve Bank started the issue of Burma bank notes during the year under report. The Rs.5 and Rs.10 Burma bank notes in the new designs were issued during the course of the year and notes of higher denominations will be issued as soon as the existing stocks of the Government of India notes of these denominations are exhausted.

Burma.

The autonomous Provincial Governments, as was stated in last year's report, had to make their arrangements for ways and means requirements direct with the Reserve Bank with effect from the 1st April 1938. From this date the provinces have assumed full responsibility for their own balances and have to maintain certain minimum balances with the Reserve Bank as provided in the agreements between the Bank and each province. Under the new arrangement, while the provinces may invest in Central Government treasury bills any surplus funds with them, they have to meet any temporary deficits in their minimum balances either by issuing their own treasury bills or by obtaining ways and means advances from the Reserve Bank.

The first province to borrow in the form of treasury bills was the Central Provinces and Berar which invited tenders for Rs.25 lakhs of nine months and Rs.15 lakhs of three months treasury bills on the 19th April. The statement below shows the transactions of all Provincial Governments in treasury bills during the year under review.

Week ended 1938.	Issuing Government.	Period.	Face value.	Average rate per cent. per annum.
			Rs.	Rs. s. p.
April 22..	C. P. & Berar	3 months	15,00,000	1 12 0
Do.	Do.	9 "	25,00,000	1 9 0
June 3..	Do.	9 "	20,00,000	1 11 0
August 12..	Madras	6 "	50,00,000	1 3 11
" 19..	C. P. & Berar	6 "	30,00,000	1 9 0
Sept. 2..	Assam	6 "	15,00,000	1 12 0
October 21..	Madras	3 "	50,00,000	1 8 9
" 28..	u. P.	3 "	80,00,000	1 8 11
November 4..	C. P. & Berar	3 "	25,00,000	1 9 2
Do. ..	Do.	3 "	55,00,000	1 15 11
" 25..	Madras	3 "	60,00,000	1 10 8
December 2..	D o .	3 "	30,00,000	1 12 0
" 9..	Assam	3 "	20,00,000	1 15 6

The Reserve Bank also made ways and means advances to Provincial Governments when the shortage in their funds was

of a very temporary nature for which the issue of treasury bills would have been **unsuitable**.

In consultation with the Reserve Bank the Government of the Punjab floated a loan for Rs.1 crore on the 3rd August 1938. The loan consisted of 3 per cent. bonds redeemable at par in 1958 and was issued at Rs.98-8-0 for every Rs.100 nominal value. The loan was fully subscribed within an hour after its opening, On the 14th September the Government of Madras issued a 3 per cent. loan for Rs.150 lakhs repayable in 1953, the issue price being Rs.99 per cent. The loan was oversubscribed about an hour after its opening despite the weakening of securities at that time as a result of the international political situation.

The activities of the Agricultural Credit Department continued to receive the careful **consideration** of the Board during the year. As mentioned in previous reports, the Department is engaged in an intensive study of problems relating to rural finance, the results of its investigations into such problems being published in the form of bulletins from time to time. After the **publication** of the Statutory Report under section 55(1) of the Reserve Bank Act, the Department issued in January 1938 a bulletin dealing with recent developments in the co-operative movement in Burma. Bulletins on various other aspects of agricultural finance are in hand and will be issued from time to time. The services of this Department are being utilised to an increasing extent by Provincial Governments and others for consultation and guidance. During the period under review it was called upon to give its opinion on a number of legislative measures affecting rural indebtedness as also on several matters affecting the co-operative movement. The Officer-in-Charge continued to maintain a close touch with the movement and attended various co-operative conferences held in the course of the year. In May a **circular**

letter was issued to all provincial co-operative banks and central land mortgage banks laying down the procedure to be followed by them for obtaining **financial** accommodation from the Reserve Bank. A memorandum proposing an extension of the present remittance facilities and a reduction in rates was submitted during the year to the Central and Provincial Governments, but pending the approval of this scheme it was decided to continue the existing R.T.R. facilities to co-operative societies.

In April 1938 Mr. K. G. Ambegaokar, I.C.S., **Officer-**in-Charge of the Department, went on furlough to Europe and America. While there he was asked by the Bank to visit the central banks in various countries so that the experiences of those countries might be available to us in our work in India. He was also deputed to Egypt to study the financing of agriculture in that country.

The annual report of the Reserve Bank on Currency and Finance during the financial year was published **Publication of the Currency Report.** in August 1938. This review deals with the **finances** of the country and the various governments at greater length than is possible in this annual report which has to be published so soon after the year to which it relates. For the sake of statistical continuity with the previous reports issued by the Controller of the Currency, it is based on the **financial** and not the calendar year.

The general recession in business conditions witnessed in the major countries of the world in the latter half of 1937 became more pronounced in the earlier part of the year under review, but since the middle of June there has been a revival of **confidence** in the stock and commodity markets and, but for the continued **uncertainty** of the international political situation, the business outlook at the close of 1938 could be regarded as distinctly more hopeful than that a year before. In the United States, stock

exchange prices declined almost continually in the early months of the year and in April some of the leading stocks touched the lowest levels during the last five years. Indices of industrial activity and wholesale prices also showed a consistent fall in the **first** five months of 1938. The **first** signs of a revival appeared in the last two weeks of June and the upward trend was on the whole well maintained notwithstanding the tension in the international situation. In Great Britain, although the recession in the **first** six months of the year was not as marked as that in the United States, there were also **indications** of a general decline in business activity. This downward tendency was arrested at the end of June. In the months of July and August there was an upward movement but in September the markets were disturbed by the **international** crisis, and thereafter, there were erratic fluctuations on the stock exchange and a gradual hardening of money rates in London, accompanied by a depreciation of the exchange value of sterling, and generally the political situation continued to exercise a depressing effect on the markets for the remainder of the year.

In India, as in the United States, the downward trend in Situation in general business conditions continued during India. the first half of the year under review and was accentuated by the continuance of the Sino-Japanese hostilities which seriously curtailed the trading capacity of India's principal customer for cotton. Owing to a fall in the demand for India's primary commodities in world markets, the foreign trade position was distinctly unsatisfactory for the first six months of the year with consequent repercussions on the exchange value of the rupee. Indices of wholesale prices showed an almost continuous fall until the middle of June. There was a serious setback in the industrial share markets and the Bombay Stock Exchange remained closed for nearly five weeks from the 22nd of January. Industrial activity was however not affected to the same degree and the position of the textile and the iron and steel industries

was on the whole **satisfactory**. The jute industry was less prosperous and **stocks** attained a **disproportionately** large **figure** owing to the **fall in** demand from overseas **markets**. Indian **industries** as a whole resisted the general downward movement of the **first** six months of the year better than agriculture. An upward movement in the commodity markets and on the stock exchange was noticeable at the end of June, but the improvement in all cases was not maintained and the outlook at the end of the year must be regarded as uncertain.

The money market remained generally easy during the year although conditions in the last quarter of the **Money Market.** year were **firmer** than those obtaining in the corresponding period a year ago. The Reserve Bank of India rate was unchanged throughout the year at 3 per cent. per annum, at which level it had been **fixed** on the 28th November 1935. At the **beginning** of the year owing to the decline in the volume of trade the seasonal **firmness** in money rates was not in evidence to any appreciable extent and the **interbank** call rate was quoted at $\frac{1}{2}$ to $\frac{3}{4}$ per cent. As a result of the low commodity prices prevailing, the arrival of produce on the markets was delayed and it was only about the middle of March that the demand for **financing** crop movements became perceptible on an increased scale. The call rate about this time advanced to about $2\frac{1}{2}$ per cent. and **fixed** deposit rates for three and **six** months were also sympathetically higher at $1\frac{3}{4}$ to 2 per cent. The Reserve Bank's note circulation reached its peak of **Rs.190.81** crores on the 11th March, being **Rs.6.6** crores less than the maximum **circulation** of 1937. The advances of scheduled banks reached their maximum of **Rs.125** crores in April and in the same month their balances with the Reserve Bank reached their lowest at Rs.12 crores.

With the coming of the slack season money rates drifted to lower **levels** and by the end of May the call rate had fallen to $\frac{1}{2}$ per cent. In the succeeding month it was quoted nominally

at $\frac{1}{4}$ to $\frac{1}{2}$ per cent. with few borrowers. The end of June as already mentioned saw an upturn in commodity markets and in foreign trade, and although this did not immediately affect money rates, the scheduled banks' cash balances from that month have been **consistently** lower than in the previous year.

The Central European crisis in the latter half of September had little effect on the **call** loan market owing to the imminence of the repayment of the balance of the 1938-40 loan on the 1st October but fixed deposit rates generally hardened in **sympathy** with London discount rates. The money market remained **generally** dull until the **beginning** of December when there was a strong improvement in the demand for short term funds. Towards the end of the year the call loan market **was** active with the rate closing at $2\frac{3}{4}$ per cent. while the rate for three months deposits had also advanced to about $2\frac{1}{2}$ per cent.

During the busy season at the beginning of the year the yield on Central Government Treasury Bills was over one per cent. per annum. In the **slack** months of July, August and **September** it fell below one per cent. but thereafter there was a progressive rise in sympathy with the increase in treasury **bill** yields in London and by the end of the year it was approximately $2\frac{1}{2}$ per cent. The average rate for Central Government treasury bills during the year was Rs.1-4-10 as compared with Re.O-14-4 in 1937. The total amount of treasury bills sold to the public. by the Central Government by tender and by intermediates was Rs. 88,70,00,000 in 1938 against Rs.69,98,50,000 in the preceding year.

The easiness of money and the lead given by the London Indian **Securities** securities market led to a general strengthening **Market.** of gilt-edged prices in the early months of the year. In January 39 per cent. Rupee paper fluctuated between **Rs.98-2-0** and **Rs.98-11-0** with a steady undertone. Seasonal

stringency in India caused a slight setback to **Rs.97-6-0** in February but there was soon an improvement which was maintained in the succeeding three months, the prices remaining considerably above the levels of the corresponding period in 1937. With the coming of the slack season gilt-edged securities rallied further on investment demand, and in August Rupee paper reached the high level for the year of **Rs.99-8-0**. The international crisis brought about a sharp decline in the latter half of September. On the 15th of that month Rupee paper declined to **Rs.93-4-0** in sympathy with London security prices but recovered to Rs.98. The recovery was short-lived. On the 27th, with the worsening of the situation, there was a heavy fall to **Rs.90-12-0** on *nervous* selling in sympathy with the London market. The fixing of minimum quotations for gilt-edged securities in London checked the fall. Prices recovered sharply after the Munich Agreement and on the 30th September Rupee paper was quoted at **Rs.98-4-0**. Thereafter despite the uneasiness in the European situation prices were well maintained until the end of the year, the closing price of $3\frac{1}{2}$ per cent. paper on the 30th December being **Rs.98-3-0**.

The Government of India floated a 3 per cent. rupee loan on the 19th May 1938. The loan was issued at 98 per cent. and is redeemable at par not earlier than 1963 and not later than 1965. Subscriptions were invited in the form of cash or $5\frac{1}{2}$ per cent. loan 1938-40 or 5 per cent. loan 1939-44. The $5\frac{1}{2}$ per cent. loan 1938-40 and the 5 per cent. loan 1939-44 were accepted in subscription to the new loan at **Rs.101-12-0** and **Rs.104** respectively per **Rs.100** of the nominal value of the securities tendered. Money conditions at the time of the issue were favourable and the loan was oversubscribed in less than five minutes after its opening. The total conversions amounted approximately to **Rs.19 $\frac{1}{2}$** crores and with cash allotment at 50 per cent. amounting to about Rs.6 crores, the gross subscriptions aggregated about **Rs.25 $\frac{1}{2}$** crores. The new loan had a

favourable effect on the gilt-edged market and was quoted at a slight premium **immediately after** issue.

The nervousness on the share markets which began in **Industrial Share Market.** the previous year culminated in the **early** part of the period under review, When the Bombay Stock Exchange opened for business at the beginning of the year, **prices** of the leading scrips were **continuously** marked down as a result of heavy selling pressure. As days passed the depression in the share market deepened almost into a panic and on the **22nd** of the month the **President** of the Bombay Stock Exchange by the exercise of his special powers closed the market for forward business. The Exchange reopened for forward **transactions** in the beginning of March, **but** the undertone remained dull and hesitant until the end of June when **prices** rose sharply in response to the upward movement on **Wall Street.** Thereafter although share prices in Bombay and Calcutta generally fluctuated in sympathy with Wall Street and London **advices**, the tone on the whole was better though business was on a smaller **scale** than in the preceding years.

Owing to the steadiness of the sterling dollar rate, there were no marked **fluctuations** in the gold market **Bullion Market.** in the first two months of the year, the ready price varying between **Rs.34-5-6** and **Rs.34-9-0** per tola. Towards the end of **March** the **sterling-dollar** cross rate **fell** below 496 and the price of gold rose to **Rs.34-14-9.** In the **succeeding** months the weakness of the rupee exchange combined with the keen demand for hoarding purposes from Europe in view of the political situation there caused the **price** to appreciate further. On the 28th November gold touched a new high level of **Rs.37-10-3** per tola, although subsequently there was a slight decline. The total amount of gold exported during the year was **Rs.15-60** crores as compared with **Rs.18-28** crores in 1937. A notable feature of this year's exports was the large

number of sovereigns shipped from India owing to the increased demand for them from Europe.

The silver market also opened steady and continued to remain so until March when it fell sharply as a result of a change in the purchase policy of the United States. The market recovered subsequently and in the following months generally followed the trend of the cross rate. The upcountry **offtake** throughout the year was small.

During the year the Reserve Bank undertook on behalf of its **correspondents** abroad the purchase of **Gold Purchases.** gold in India- on their account. The gold so purchased was not exported but was held by the Bank earmarked on account of the parties for whom it was purchased. The amount of gold held by the Reserve Bank for purchasers abroad at the end of the year was approximately **9,20,400 tolas** valued at **Rs.3,39,78,000.**

Wholesale commodity prices were generally on the decline **C o m m o d i t y** in the first six months of the year. The Calcutta **Prices.** index number of wholesale prices for all commodities (1914= 100) fell from 101 in December 1937 to 94 in April 1938 and continued at that level until the end of June. The month of July witnessed a rise to 95 and thereafter the index number was unchanged **throughout** the remainder of the **year** except in August when it again declined to 94. Owing to a favourable Indian crop and increased Australian imports, the wheat market ruled weak for the greater part of the year. The general revival at the end of June and the European. crisis in September brought about an increase in the price of wheat, but this rise was not maintained later, and the Government of India, in order to support the internal market, imposed an import duty towards the close of the year. The index number of raw jute fell steadily from 50 in December 1937 to 43 in June 1938, Thereafter as a result of the upturn in general business

conditions abroad prices showed a marked improvement and the index number closed at 52 in December. A similar trend was witnessed in jute manufactures, the Jute Ordinance of the Government of Bengal being an additional favourable factor. Raw cotton prices however continued depressed despite the smaller crop estimates in the United States and India. From 74 in December 1937 the index number fell to 62 in September 1938 but following upon some improvement in the export demand in the following months, the index rose to 66 in December. There was a sustained improvement in sugar owing to the shortage of cane supplies and also partly as a result of Government regulation of sugar factories and the efforts of the Sugar Syndicate. Tea and oilseeds however showed a slight decline, the indices falling from 134 and 118 respectively in December 1937 to 120 and 107 in December 1938.

The total value of merchandise exported from India and Burma during 1938 was **Rs.180.16** crores as **Balance Trade** of compared with **Rs.220.43** crores in the previous year. The total value of merchandise imported into the two countries was Rs.140.36 crores against **Rs.154.11** crores in 1937. The balance of trade in merchandise in favour of India and Burma has therefore declined from Rs.66.32 crores in 1937 to Rs. 39.80 crores in 1938. By far the largest decline was in the export of raw cotton. Exports of manufactured and raw jute, hides and skins and seeds also showed decreases. A characteristic feature of the import trade was the large increase in the imports of machinery. The balance of trade in merchandise was generally **unfavourable** in the **first** six months of the year, but this tendency was reversed at the end of June when India shared in the revival of business sentiment which originated in the United States, and the balance of trade in July and the succeeding months was more favourable than in the corresponding months of 1937. India's exports of

precious metals however as already mentioned declined considerably during the period under review.

The cumulative effect of the decline in the exports of merchandise and of gold made itself felt on the **Exchange.** course of the rupee-sterling exchange in the period under report. During the **first** three months of the year **owing to** the seasonal tightness of money and the activity in the export markets the exchange was steady at **1s. 6 3/32d.** rising occasionally **upto 1s. 6 1/8d.** The Reserve Bank was able to purchase its sterling requirements by tender at **1s. 6 1/8d.,** the total purchases effected in these months being **£13,097,000.** At the beginning of April the market was quiet and there was an appreciable decline in the amount of sterling tendered to the Bank. On the 13th of this month the Reserve Bank accepted tenders to the **amount of £10,000 at 1s. 6 3/32d.,** a drop of **1/32d.** on the previously accepted rate. **This** was followed by an immediate decline in the market rates, and though in the following week tenders at **1s. 6d.** were rejected, and at the beginning of May the Reserve Bank suspended purchases by tender altogether, rates continued to fall and touched the statutory lower point of **1s. 5 49/64d.** in the first week of June. The Government of India at this time announced their decision to **maintain** the rate at **1s. 6d.** as a result of which there was a slightly steadier feeling in the market. The **improvement** in general business outlook at the end of the month led to a marked change of sentiment **in** the exchange market and in July the rate gradually settled down at **1s. 5 29/32d., 1/32d.** below the Reserve Bank's tap rate. Thereafter owing to the improvement in India's balance of trade, the rupee exchange remained on the whole steady until the close of the year, the rates varying between **1s. 5 13/16d.** and **1s. 5 15/16d.** The total amount of sterling purchased by the Bank during the year was **£19,058,000** as compared with **£33,916,000** in 1937. As the former amount was **insufficient** to meet Government's sterling requirements

which amounted to £36,010,000 during the year, the Reserve Bank had to transfer sterling securities amounting to £15,605,000 from its Issue to its Banking Department contracting its cash balances correspondingly. In the month of December forward exchange rates weakened, the fall being further aggravated by speculative forces, and the Government of India issued another press communique repeating their decision to maintain the exchange at the present statutory rate. Towards the close of the month with the increasing demand for money, the ready rate grew firmer, and the Bank were able to effect purchases at their tap rate of Is. 5 15/16d.

Three banks were included in the second schedule to the **Schedule d** Reserve Bank Act in the course of the year **Banks.** bringing the total number of scheduled banks to 57. A list of these banks is attached as an appendix to this report. The table below compares the position of scheduled banks as on the 31st December 1937 and the 30th December 1938.

	As on 31-12-37.	As on 30-12-38.	Difference.
	Rs.	Rs.	Rs.
(i) Demand liabilities in India and Burma . . .	1,31,53,84,000	1,30,15,36,000	—1,38,48,000
(ii) Time liabilities in India and Burma . . .	1,10,76,99,000	1,08,44,09,000	—2,32,90,000
(iii) Cash in India and Burma . . .	8,14,89,000	7,23,31,000	—91,58,000
(iv) Balances with the Reserve Bank . . .	19,91,99,000	11,96,62,000	—7,95,37,000
(v) Advances in India and Burma . . .	1,08,73,36,000	1,14,57,40,000	+5,84,04,000
(i) Bills discounted in India and Burma . . .	6,13,98,000	4,33,57,000	—1,80,41,000

Despite the general recession in the first half of the year, the demand for money continued reasonably active throughout and

the scheduled banks on the whole were working on a lower cash ratio than in 1937. Towards the end of the year there was a definite increase in the credit requirements of trade and industry and the ratio of total cash and balances with the Reserve Bank to total liabilities fell to 8·05 per cent. as compared with 11·6 per cent. at the end of the previous year. The steady development of the scheduled banks maintained during the last three years was unfortunately marred by a local banking crisis in South India at the end of June, following upon the closure of the Travancore National and Quilon Bank. It is satisfactory to note that in spite of this setback the total advances and discounts of the scheduled banks rose from Rs.114·8'7 crores at the end of 1937 to Rs.118·91 crores at the close of the period under review. The demand and time liabilities of the banks also continued to grow except in the case of the banks affected by the crisis.

The total number of offices of the scheduled banks including branches, pay offices, etc., in India and Burma was 1,125 at the end of December 1938 as compared with 1,138 at the close of the preceding year. The decrease in the number owing to the closing of branches of the Travancore National and Quilon Bank was largely compensated by the increase in the case of other banks.

As already stated, the end of June 1938 witnessed a banking **South Indian** crisis in South India. The closure of the **Banking Crisis.** Travancore National and Quilon Bank created a certain amount of nervousness among bank depositors in South India as regards the position of other local banks, though other centres were unaffected. The Deputy Governor left Bombay for Madras on the 26th June in order to keep in personal touch with the situation. As soon as the news of the crisis was received special credit limits were sanctioned to banks in South India and these limits were later doubled. Although the crisis in its acute form subsided in a short period, an underlying feeling of nervousness continued in South India until the close of the year. Later in the year more South Indian Banks asked for

help and **increased** limits were **sanctioned** in certain **cases**. In view of the **difficulties** experienced during the crisis and to avoid similar **difficulties** in future a circular letter was issued to all scheduled banks on the 1st September setting out the nature of the relations between the Reserve Bank and the scheduled banks and laying down a policy for the guidance of such banks as might want accommodation from the Reserve Bank. Later in the year an explanatory memorandum was issued to the scheduled banks regarding the circumstances and conditions under which they could obtain advances and discounts from the Reserve Bank under section 17 of its Act, The crisis also revealed that one of the **difficulties** in the way of making advances to **scheduled** banks during such times was the absence of a **sufficient** quantity of rediscountable assets with them. In order that the banks might build up a stronger portfolio consisting of more eligible paper an increase in the amount of bills traded in by them is an obviously necessary preliminary. As the greatest obstacle in the way of such an increase at present money rates is the incidence of the **high** stamp duty on usance bills, the Central Board of the Reserve Bank repeated its request to Government in December 1938 that the present rates of duty should be reduced to a more reasonable level.

Under the Reserve Bank Act, the business relations of the Reserve Bank are confined to banks which have a paid up capital and reserves of **Rs.5** lakhs or above and which are included in the second schedule to that Act. As already mentioned the **number** of such banks is at present 57, Besides these there are operating in this country a large number of banking and loan companies incorporated **under** the Indian Companies Act. The number of such companies at the present time is about 1,500 and among them roughly 300 have a paid up capital and reserves of **Rs.50,000** or over. **Upto** the beginning of 1938 the Reserve Bank was **receiving** weekly returns and balance

**Non-Scheduled
Banks.**

sheets from the scheduled banks alone. With the coming into force of the banking provisions of the Companies Act it seemed desirable that as a Central Bank the Reserve Bank should also obtain information regarding non-scheduled banks. For **this** purpose the Government of India was requested to amend the Indian Companies Act so as to provide that banks should submit their returns to the Registrars of Joint Stock Companies in triplicate. The Act was consequently amended in February 1938 and **instructions** were issued by the **Commerce Department** of the Government of India to the Registrars to send a copy of these returns to us. In November a circular letter was issued to **all** non-scheduled banks with capital and reserves of **Rs.50,000** or over inquiring whether they would be willing to place the Reserve Bank in possession of information regarding their operations in order that the Bank might, if necessary, help them with advice and guidance. The replies received so far from such banks have been encouraging and it is to be hoped that such contacts between the Reserve Bank and the non-scheduled banks will tend to the development of a sounder banking system in this country.

By order of the

Central Board of Directors,

J. B. TAYLOR,

Governor.

RESERVE BANK OF INDIA
Balance Sheet as at 31st December 1933.
ISSUE DEPARTMENT.

LIABILITIES.						ASSETS.						
	Rs.	a.	p.	Rs.	a.		Re.	a.	p.	Rs.	a.	p.
Notes held in the Banking Dept.	18,43,69,425		8 0			Gold Coin and Bullion:—						
Notes in circulation :-						(a) Held in India . .	41,54,53,252		0 8			
(a) Legal Tender in India	1,80,25,68,317		8 0			(b) Held outside India	2,86,97,782		0 1 0			
(b) Legal tender only in circulation	73,91,350		0 0			Sterling Securities . .	59,50,02,401		8 3			
Total Notes issued. .				2,06,43,29,093	0 0	Total of A . .				1,03,91,53,435	9 9	
						Rupee Coin				70,19,36,608	12 3	
						Govt. of India Rupee Securities				32,32,39,048	10 0	
						Internal Bills of Exchange and other commercial Paper. .				Nil		
TOTAL LIABILITIES . .				2,06,43,29,093	0	TOTAL ASSETS . .				2,06,43,29,093	0 0	

Ratio of Total of A to Liabilities : 50·339 per cent.

BANKING DEPARTMENT.

LIABILITIES.			ASSETS.		
	Rs.	a. p.		Rs.	a. p.
Capital paid up	5,00,00,000	0 0	Notes :-		
Reserve Fund	5,00,00,000	0 0	(a) Legal Tender in India	18,43,49,210	81 0
Deposits :-			(b) Legal Tender in Burma only	20,216	0 0
(n) Government-			Rupee Coin	3,79,218	12 0
(1) Central Government of India	4,87,30,192	13 5	Subsidiary Coin	6,39,975	11 5
(2) Government of Burma	1,94,82,990	6 6	Bills Purchased and Discounted :-		
(3) Other Government Accounts	4,36,39,904	14 2	(a) Internal	Nil.	
(6) Banks	12,17,45,685	4 3	(b) External	Nil.	
(c) Others	84,33,920	1 10	(c) Government Treasury Bills	8,26,46,250	3 4
Bills Payable	8,77,947	9 2	Balances held abroad*	1,14,08,432	13 1
Other Liabilities	86,87,373	9 6	Loans and Advances to Governments	1,06,00,000	0 0
			Other Loans and Advances	10,50,000	0 0
			Investments	5,26,15,728	8 8
			Other Assets	78,88,983	2 4
TOTAL LIABILITIES	35,15,98,014	10 10	TOTAL ASSETS	35,15,98,014	10 10

* Includes Cash and Short term Securities.

C. R. TREVOR,
Chief Accountant.

Dated the 18th January 1939.

J. B. TAYLOR,
Governor.
MANILAL B. NANAVATI,
Deputy Governor.

REPORT OF **THE** AUDITORS.

TO THE SHAREHOLDERS
OF THE RESERVE BANK OF INDIA.

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Shareholders upon the Balance Sheet and Accounts of the Bank **as** at 31st December 1938.

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

(22)

S. B. BILLMORIA & CO. ,
SASTRI & SHAH,
P. K. GHOSH,

Dated the 18th January 1939.

Auditors.

RESERVE BANK OF INDIA
Profit and Loss Account for the year ended 31st December 1939.

INCOME	Rs.	a.	p.
Interest, Discount, Exchange, Commission, etc.	1,36,70,015	1	2
EXPENDITURE	1,36,70,015	1	2
Establishment	34,33,565	12	9
Directors' and Local Board Members' fees and expenses	93,292	2	6
Auditors' fees	9,000	0	0
Rent, taxes, insurance, lighting, etc.	5,40,312	10	1
Law charges	12,343	14	6
Postage and telegraph charges	69,869	s	5
Remittance of Treasure	8,72,029	3	4
Stationery, etc.	87,998	7	6
Security Printing (Cheque, note forms, etc.)	17,49,786	6	1
Depreciation and repairs to Bank property	1,16,931	5	2
Agency charges	25,12,572	3	2
Contributions to staff and superannuation funds	77,700	0	0
Miscellaneous expenses.. . . .	2,49,476	7	0
Net available balance	38,45,137	0	8
	1,36,70,015	- i	2

(23)

Profit and Loss Account for the year ended 31st December 1939—contd.

	Rs.	a.	p.
Amount set aside for payment of dividend at the rate of 3½ per cent. per annum	17,50,000	0	0
Amount transferred to the Reserve Fund	<i>Nil.</i>		
Surplus available for payment of an additional dividend at the rate of per cent.	<i>Nil.</i>		
Surplua payable to the Central Government	20,95,137	0	8
Balance carried forward ,	<i>Nil.</i>		
	38,45,137	0	8

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on 31st December 1938	5,00,00,000	0	0
By transfer from Profit and Loss account	<i>Nil.</i>		
TOTAL . . .	5,00,00,000	0	0

C. R. TREVOR,
Chief Accountant.

Dated the 18th January, 1939.

J. B. TAYLOR,
Governor.
MANILAL B. NANAVATI,
Deputy Governor.

APPENDIX

List of Scheduled Banks

1. Ajodhia Bank.
2. Allahabad Bank.
3. American Express Co., Inc .
4. Balthazar & Son.
5. Banco Nacional Ultramarino.
6. Bank of Baroda.
7. Bank of Behar.
8. Bank of Hindustan.
9. Bank of India.
10. Bank of Taiwan.
11. Bank of Upper Burma.
32. Benares Bank.
13. Bengal Central Bank.
14. Bhugwandas Bank.
15. Calcutta National Bank.
16. Canara Bank.
17. Canara Banking Corporation.
18. Canara Industrial & Banking Syndicate.
19. Central Bank of India.
20. Chartered Bank of India, Australia and China-
21. Comilla Banking Corporation.
22. Comilla Union Bank.
23. Comptoir National D'Escompte de Paris.
24. Devkaran Nanjee Banking Co.
25. Eastern Bank.
26. Grindlay & Co.
27. Hongkong & Shanghai Banking Corporation-
28. Imperial Bank of India.
29. Indian Bank.
30. Indo Commercial Bank.
31. Indian Overseas Bank.
32. Industrial Bank of Western India.
33. Karnani Industrial Bank.
34. Lloyds Bank.
36. Mercantile Bank of India.
36. Mitsui Bank.
37. Mohaluxmi Bank.
38. Nadar Bank.
39. Nath Bank.
40. National Bank of India.
41. Nedungadi Bank.
42. Netherlands India Commercial Bank N. V.
43. Netherlands Trading Society.
44. National City Bank of New York.
45. Oudh Commercial Bank.
46. Oversea Chinese Banking Corporation.
47. Palai Central Bank.
48. P. & O. Banking Corporation.
49. Punjab and Sind Bank.
50. Punjab Co-operative Bank.
51. Punjab National Bank.
52. Simla Banking & Industrial Co.
53. Thos. Cook & Son (Bankers).
- *54. Travancore National and Quilon Bank.
55. Union Bank of India.
56. U. Rai Gyaw Thoo & Co.
57. Yokohama Specie Bank.

* Suspended payment.

The Times of India Press, Bombay.