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Elected Members.

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R. P. Masani, Esq. (*Vice-President*).
Sir Sultan M. Chinoy.
D. M. Thakersey, Esq.
Kasturbhai Lalbhai, Esq.

Nominated Members.

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Dr. P. C. Patil.
Arthur Pether, Esq.

EASTERN (CALCUTI'A) AREA.

Elected Members.

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Rai Bahadur Sir Badridas Goenka, C.I.E.
Amar Krishna Ghosh, Esq.
Dr. Narendra Nath Law.
Arthur Norton Wardley, Esq.

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NORTHERN (DELHI) AREA.

Elected Members.

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Satya Paul Virmani, Esq. (*Vice-President*).
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Dewan Bahadur Thodla Raghaviah, C.S.I. (*Vice-President*).

S. Rm. Ar. Rm. Ramanathan Chettiar, Esq.

Dewan Bahadur Govindoss Chathoorbhoojadoss.

R. Surya Rao, Esq.

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R. R. Iyer, Esq.

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BURMA (RANGOON) AREA.

Elected Members.

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Rambux Kedia, Esq. (*Vice-President*).

Avula Ramadass, Esq.

U. Po Byaw.

Zora Singh, Esq.

Nominated Members.

Dr. U. Set.

Ratilal Desai, Esq.

A. A. Bruce, Esq.

OFFICES OF THE BANKING DEPARTMENT.

Bombay
Calcutta
Delhi
Madras
Rangoon
London

BRANCHES OF THE ISSUE DEPARTMENT.

Bombay
Calcutta
Madras
Rangoon
*Cawnpore
*Karachi
*Lahore

* Also Branches of the Banking Department.

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

For the year 1st January-31st *December 1939.*

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 1939.

ANNUAL ACCOUNTS

After payment of expenses of administration and provision for sundry liabilities and contingencies, the net profit amounts to	Rs. **22,50,355-10-7**
Of this amount, the sum of will be utilized for payment to shareholders of a dividend at the rate of $3\frac{1}{2}$ 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,	Rs. **17,50,000- 0-0**
leaving a surplus of for payment to the Central Government in accordance with the said section.	Rs. **5,00,355-10-7**

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 Madras, who were duly elected as auditors of the Bank for the

Auditors.

year under review by the shareholders at their meeting held at Madras on the 6th February 1939, in accordance with section 50(1) of the Reserve Bank of India Act, 1934. The present auditors being eligible offer themselves for re-appointment.

Constitution of the Central Board.

In March 1939 the Central Government nominated Mr. C. E. Jones, C.I.E., I.C.S., to be a Director of the Central Board under section 8(1) (d) of the Act in place of Mr. (now Sir) A. J. Raisman, C.S.I., C.I.E., I.C.S. Subsequently in July Mr. C. D. Deshmukh, C.I.E., I.C.S., was nominated as Director under the same clause in place of Mr. Jones and in November Mr. Jones was re-nominated.

Sir Homi Mehta, Mr. A. A. Bruce, Khan Bahadur Syed Maratib Ali, and Khan Bahadur Adam Hajee Mohammad Sait, the Directors nominated by the Central Government under section 8(1) (b) of the Reserve Bank Act, retired at the end of the year on the expiry of their period of office in terms of section S(4) of the Act, and have been re-nominated for a further period of five years.

Meetings of the Central Board and its Committee.

During the year under report six meetings of the Central Board were held, of which two were held in Bombay, two in Calcutta, and one each in Madras and Delhi. The Committee of the Central Board met 39 times in Bombay, 12 times in Calcutta, and once in Delhi.

Local Boards.

There were no Local Board elections during the year. In July 1939, Mr. B. V. Jadhav, a member of the Bombay Local Board, resigned and the Central Board nominated Dr. P. C. Patil, M.Sc., L.Ag., D.Sc., in the vacancy in accordance with section 12(3) of the Act. In terms of the same section the Central Board in October 1939 nominated Mr. S. Rm. Ar. Rm. Ramanathan Chettiar to be a member of the Madras Local Board in the vacancy caused by the resignation of Mr. Pl. V. A. V. Ramanathan Chettiar.

Distribution of shares between the various areas.

The accompanying table shows the distribution of the Bank's shares on the 31st December 1938 and the 31st December 1939.

	Distribution of shares on the 31st December 1938.	Distribution of shares on the 31st December 1939.
Bombay	1,22,800	2,07,367
Delhi a		1,21,335
Madras	93,314	92,764
	69,961	60,109
Rangoon	18,427	18,426

	Number of share-holders on the 31st December 1938.	Number of share-holders on the 31st December 1939.
Bombay	20,766	19,945
Calcutta	13,801	13,187
Delhi	14,900	14,193
Madras	8,708	a,377
Rangoon	1,003	1,490
Total	69,777	67,192

	31st December 1938.	31st December 1939.
Average number of shares held by each shareholder	8.4	8.7

As will be observed from the above table the total number of shareholders decreased from 69,777 to 67,192 during the year, as a result of which the average number of shares held by each shareholder increased from 8.4 to 8.7. Thus the tendency for the Bank's shares to become concentrated in fewer hands, which was referred to in previous reports, has continued and the total number of shareholders since the inception of the Bank has declined by nearly 38 per cent. As regards the distribution of shares between the various areas it will be seen that while the number of shares on the Rangoon register remained more or less unchanged during the year, the numbers on the Bombay register and to a lesser extent on the Madras register increased at the expense of Calcutta and Delhi.

Bank's Premises.

The Reserve Bank's own buildings in Bombay and Rangoon were completed and occupied at the end of March 1939. The Bank's new building in Lahore is nearing completion and is expected to be ready for occupation early in 1940. The Government of India have provisionally accepted a proposal to have a combined building in Madras for the Reserve Bank and the Customs, Income Tax and Salt Revenue Departments of the Government, and the preliminary work is now in hand.

Reserve Bank Notes.

No new denominations of India notes were issued during the year nor was any change made in the existing pattern of these notes. As indicated in last year's report Burma Bank notes of the denominations of Rs. 100, Rs. 1,000 and Rs. 10,000 were issued during the year under report. With a view to speeding up the change-over from the overprinted Government of India notes to Burma Bank notes, steps were also taken to stop the re-issues of over-printed notes, and it is expected that the issues of such notes will cease entirely after the 31st March 1940 ; overprinted notes which are already in circulation will of course continue to be legal tender in Burma after that date.

Publication of the Currency Report.

The Report of the Reserve Bank on Currency & Finance during the financial year ended the 31st March 1939 was published in August 1939. This annual review deals with the monetary and banking develop-ments in the country and with Government finances in greater detail than the annual report to the shareholders, which is primarily 8 record of the Bank's activities during the year.

International Economic Situation.

The economic situation in the earlier months of the year reflected the uncertainties of the European political situation and business remained in a condition of suspense and anxiety. With the outbreak of war in Europe in September 1939 world economy had again to adjust itself to the exigencies of a major conflict for the second time in last twenty-five years. In the United States the upward trend in business activity noticed in the latter half of 1938 was not maintained in all directions in the early months of the year, and although the indices of industrial production continued to improve, those of wholesale prices and industrial shares did not show any appreciable rise until September. The stimulus of the war in Europe then led to a general rise in industrial shares and commodity prices. The amendment of the Neutrality Act at the beginning of November which permitted belligerent countries to import arms on a cash-and-carry basis gave a further fillip to the American armament industry. In Great Britain the successive developments in the European situation which had been undermining business confidence since August 1938 continued to exercise a depressing effect on the markets generally, and although industrial production continued to expand during the earlier months of the year, owing mainly to the increase in defence requirements, commodity prices and the value of foreign trade were generally lower than in the corresponding months of the previous year. During the first eight months of the year the financial markets were also overshadowed by the political situation and gilt-edged securities in particular were subject to sharp fluctuations with a downward tendency. Early in the year the resources of the Exchange Equalisation Fund were strengthened by the transfer of f200 million worth of gold from the Bank of England and this was followed by the re-valuation of the Bank's gold stocks under the Currency and Bank Notes

Act of 1939. The British budget estimate for the year 1939-40 provided for a record defence expenditure of £630 millions. Thus although the war with Germany did not break out until the 3rd September British economy had been gradually undergoing a change from a peace to a war time footing. Shortly before the outbreak of the war the Bank of England rate was raised to 4 per cent. After war broke out sterling was devalued and officially pegged to the dollar at 4·02 to 4·06 and subsequently at 402 to 4·04. (The spread has recently been reduced further by altering the lower limit to 4·02½ and the upper to 4·03½.) The stocks of certain important commodities such as cereals and petrol were also taken over by the Government and prices were fixed for foodstuffs. As compared with 1914 the imposition of the exchange and other controls necessary for the prosecution of the war was accomplished at a very much earlier stage and with greater rapidity and less dislocation of economic conditions. There were no such violent upheavals in the money and discount markets as in 1914 and as the financial markets adjusted themselves to the new situation the Bank rate was reduced from 4 to 3 per cent. towards the close of September and then again to the pre-war level of 2 per cent. towards the end of October.

Situation in India.

In India, as in Great Britain, the growing tension in the international situation militated against any sustained recovery in the first eight months of the year and the nervousness which it engendered dominated the financial markets generally and almost nullified the effect of other favourable factors, such as a slight improvement in the foreign trade position and a rise in the prices of certain commodities such as jute and sugar. To this was added the depression in the prices of wheat and cotton and the difficulties of the cotton textile industry, which has been experiencing one of its worst slumps owing, among other reasons, to overproduction and the increased cost of labour. The declaration of war however radically altered the situation and led to a sharp rise in commodity prices and an improvement in the prospects of the Indian agriculturists and industries generally. The Calcutta index number of wholesale prices rose from 100 in August 1939 to 13'7 in December, being the highest since 1929. Between August and December 1939 the price of raw cotton nearly doubled itself, the index number rising from 64 to 122 while the index for cotton manufactures also rose from 97 to 135 during the same period. Raw jute and jute manufactures showed an even greater rise than cotton owing to the demand for sand-bags from the British and French Governments. In fact there was a minor boom in the commodity and the industrial share markets in which speculative forces drove up prices occasionally to unhealthy levels which could not be maintained. On the whole, however, prices appeared to be settling down at a higher level at the end of the year and in spite of occasional set-backs the undertone was confident. In the financial markets the outbreak of the war led to a sharp fall in gilt-edged prices, a certain amount of withdrawals of deposits from banks and a slight hardening of money rates in the first few days but as the markets adjusted themselves to the new conditions gilt-edged securities and bank deposits recovered and money rates tended to lower levels. The change brought about by the war in the economic situation was also conspicuous in the sphere of Indian industry where the depression prevailing at the beginning of the year in such major industries as jute was virtually transformed into prosperity. On the whole therefore the economic outlook at the end of the year appeared to be brighter than at any time during the past ten years, although memories of the aftermath of the last war were sufficiently recent to lead to a fairly general realisation of the fact that war profits are essentially artificial and transient and that in a major conflict of this nature no country can hope to escape the inevitable strain on her economic resources.

Money Market.

During the first four months of the year monetary conditions were generally firmer than in the corresponding period of the previous year owing to increased seasonal demands and a slight hardening of London discount rates. With the gradual oncoming of the slack season in May there was an easier feeling which was more or less maintained until September when consequent on the outbreak of the war money was again in increased demand for the finance of silver, industrial shares and commodities. Despite the keener demand during the year cheap money conditions were generally maintained and the Reserve Bank of India rate which has been fixed at 3 per cent. since the 23th November 1936 continued unchanged throughout the year. At the beginning of the year, as a result of increased requirements for financing crop movements, the inter-bank call rate went as high as $2\frac{3}{4}$ per cent. in Bombay while the rate for 3 months deposits also rose to about 2 per cent. In the succeeding three months the seasonal demand continued and the call rate fluctuated between $\frac{1}{2}$ and $2\frac{3}{4}$ per cent,

With the slack season in May and June there set in a declining tendency which was accentuated by the repayment of the Government of India 1939-44 bonds on the 16th July. The inter-bank rate consequently dropped to $\frac{1}{4}$ per cent. and fluctuated thereafter between $\frac{1}{4}$ and $\frac{1}{2}$ per cent. until the end of August. The raising of the Bank of England rate from 2 to 4 per cent. on the 24th of that month had no appreciable effect on the call loan market as the Reserve Bank rate remained unchanged, but the rates for fixed deposits showed a slight improvement due to a stiffening of discount rates in London.

Immediately after the outbreak of the war money rates tended to be firmer and although money continued to be in plentiful supply bankers were reluctant to lock up their funds far ahead. As a result the inter-bank call rate in Bombay rose to about $1\frac{1}{4}$ per cent. in the second week of September while the three months deposit rate also improved to about

$2\frac{1}{2}$ per cent. There was a certain amount of withdrawals from the scheduled banks and their consolidated return on the 8th September showed a decline of Rs.5·11 crores in their demand and time liabilities and of Rs.7·80 crores in their balances with the Reserve Bank. Deposits however soon began to return as the public adjusted themselves to the new situation and by the 21st September the monetary situation had eased considerably and the call rate slipped back to $\frac{1}{2}$ per cent. The reduction of the Bank of England rate from 4 to 3 per cent. on the 28th September and then again to the pre-war level of 2 per cent. on the 26th October tended to ease the situation still further. In the succeeding two mouths, however, the seasonal demand for funds combined with the greatly increased demand for financing large stocks of silver and commodities at the higher prices then prevailing began to assert itself and by the end of the year the call rate moved up to $2\frac{1}{4}$ per cent. In the meantime currency was freely supplied by the Reserve Bank both in the form of bank notes and rupee coin and with the aid of large purchases of sterling the Bank expanded its note issue against sterling securities to the extent of Rs.48 crores between September and the end of December. With a view to further easing the position the Reserve Bank made considerable purchases of treasury bills, the total in its portfolio in the Banking Department amounting to Rs.10·11 crores at the end of the year. It also added to its portfolio in the Issue Department one crore of short-dated rupee securities purchased in the market. Despite this increase in the note issue the cash in the Bank during the last four months of 1939 was considerably below the level of the corresponding period of the previous year. The increased financial activity in India since the outbreak of the war was reflected in the clearing house returns which amounted to Rs.852·90 crores in the months of September to December 1939 as compared with Rs.655·03 crores in the corresponding months of 1938.

Central Government Treasury Bills.

Owing to the seasonal firmness in money rates the yield on Central Government treasury bills during the months of January to April 1939 averaged about 2½ par cent. but thereafter it gradually declined in the slack season until it fell below one per cent. in July and August. During September and October there was a sharp rise to about 29 per cent. in sympathy with the higher treasury bill yield in London but with the reduction of the Bank of England rate towards the end of October and the subsequent fall in London discount rates the average yield on Central Government bills eased to slightly below 2 per cent. in the concluding months of the year. In general the weakly offer of treasury bills was kept at Rs.1 crore during the busy season and raised to Rs.1½ crores and subsequently to Rs.2 crores in the slack season ; to avoid possible stringency in he money market owing to year-end requirements there were no sales by tender during the last week of December. The total amount of Central Government treasury bills sold to the public during the year including intermediates amounted to Rs.118.95 crores at an average rate of Rs.2-0-1 per cent. per annum as compared with Rs.88.70 crores at an average rate of Rs.1-4-10 in 1938.

With a view to improving the popularity of the treasury hill as a liquid asset to be held by banks, and in the endeavour to develop a rediscount market the Bank also standardised its arrangements for the rediscount of such bills, both Central and Provinoial, at rates only slightly higher than those prevailing at the nearest weekly tender.

Provincial Government Treasury Bills.

During the year two more Provincial Governments, namely, Bengal and the Punjab entered the treasury bill market raising the total number of provinces which borrow in this form from four to six. The total bills sold by various Provinoial

Governments during the year amounted to **Rs.10,95 lakhs** at an average rate of **Rs.2-9-4** per cent. per annum as compared with **Rs.4,75 lakhs** at **Rs.1-10-2** in 1938. **As** in the previous year these Governments had to pay **a** somewhat higher rate for treasury bills than the Central Government but when the investing public begins to take a more substantial interest in these issues the margin should grow narrower. The rediscount facilities offered by the Reserve Bank should **also** tend to make them more popular. The following table shows the **borrowings** of various Governments in the form of treasury bills during 1939.

Week ended 1939.		Issuing Government.	Period.		Woe Value.	Average rate per cent. per annum.
					Rs.	Rs. a. p.
February	3..	C. P. & Berar	4	months.	25,00,000	2 13 0
			4	,,	25,00,000	2 12 0
March	23..	Assam	3	,,	15,00,000	2 8 0
	31..	C. P. & Berar	3	,,	30,00,000	2 9 1
April					90,00,000	2 8 10
July	7..	C. P. & Berar Punjab	3 8	,,	30,00,000	2 0 0
August	11..	Bengal	6	,,	30,00,000	1 14 6
,,				,,	75,00,000	1 11 1
September	11..1	Madras C. P. & Berar	3 6	,,	55,00,000	3 8 0
,,	8..	Bengal	6	,,	60,00,000	3 8 0
,,	29..	U.P.	3	,,	1,00,00,000	2 15 10
October	27..	Assam U.P.	3	,,	60,00,000	3 0 0
,,	27..	Madras	3	,,	50,00,000	3 0 0
November	3..	Madras	3	,,	1,00,00,000	2 16 10
	[illegible]	[illegible]		,,	75,00,000	2 8 0
,,	3..	C. P. & Berar	3	,,	50,00,000	2 7 1
December	17	Madras U.P.	3 3	,,	75,00,000	2 4 0
				,,	50,00,000	2 4 0
,,	22..	Madras	3	,,	1,00,00,000	2 3 10

Indian **Securities** Market.

The Government securities market was dominated throughout the year by the developments in the international situation. 33 per cent. rupee paper which **was** quoted at **Rs.98-5-0** at the **beginning** of the year developed a slightly easier tendency in February owing to the seasonal firmness **in** money rates ; the German **occupation** of Bohemia and Moravia in March and the Italian invasion of Albania in April accentuated this tendency and by the end of April it had declined to Rs.9212-O. A slight easing of the political and the monetary situation at the end of May caused it to rally to Rs.97-3-0 but with the worsening of the relations between Germany and Poland it fell to Rs.95-3-0 at the beginning of July. Thereafter as a result of Mr. Chamberlain's reaffirmation of the guarantee to Poland, the easiness of money following the repayment of the 1939-44 Bonds and a shortage of scrip for ready delivery, it recovered and gradually improved to Rs.98-4-0 by the 14th of August. This recovery however was shortlived and in the succeeding two weeks as a result of-the growing tension in the political situation it again declined and stood at about Rs.89-7-0 on the eve of the war. On the declaration of the war business in the Government securities market in Bombay was suspended from the 4th to the 12th September though 3½ per cent. rupee paper was unofficially quoted at about Rs.86-12-0. The market re-opened on the 13th September for the settlement of outstanding transactions but closed again from the 14th to the 18th September after which cash transactions were resumed and forward business in securities was suspended indefinitely. On the 28th September rupee paper was quoted as low as Rs.80-7-0 but thereafter it recovered gradually on steadier advices from London and improved investment demand, especially from insurance companies, its closing price on the 30th December being Rs.87-12-0.

Central Government Loan.

The Central Government floated on the 5th July, 1939, a second issue of the 3 per cent. loan 1963-65 at an issue price of Rs.98 per cent. Subscriptions were invited in the form of cash, conversion of 5 per cent. loan 1939-44, and 5 per cent. loan 1940-43. The amount offered for public subscription in the form of cash or conversion of 5 per cent. loan 193944 was Rs.15 crores while conversion without limit was also offered to holders of 5 per cent. loan 1940-43. The 5 per cent. loan 1939-44 and the 5 per cent. loan 1940-43 were accepted in subscription to the new loan at a cash equivalent of Rs.100-6-0 and Rs.104 respectively per Rs.100 of the nominal value of the securities tendered. The total subscriptions applied for and allotted were as follows :—

	Rs.
Cash	1,34,58,400
5 per cent. loan 1939-44 . .	8,23,58,800
5 per cent. loan 1940-43 . .	6,13,90,800
Total . .	15,72,08,000

Considering the uncertainties of the international situation at the time of issue the results of the loan may be regarded as satisfactory.

Provincial Loans.

On the 21st June 1939 two Provincial Governments, namely, Madras and the Central Provinces and Berar floated loans for Rs.150 lakhs and Rs.75 lakhs respectively. The terms of the Madras loan were 3 per cent. at Rs.98-8-0 repayable at par in 1959 and that of the C. P. loan 3 per cent. at Rs.98-8-0 repayable at par in 1949. The former loan was kept open till the close of business on the 21st June 1939 and was subscribed in full after calling on the underwriters to take up a portion, while the latter was over-subscribed within half an hour and allotment was made to the extent of 66 per cent. On the 16th August the Government of the Punjab issued a 3 per cent. loan for Rs.250 lakhs at Rs.98 per cent. repayable at par in 1949. The loan was over-subscribed within two hours of its opening and allotment was made to the extent of 90 per cent.

Industrial Share Market.

The uncertainties of the European political situation and the slackness of trade in India induced a generally dull feeling in the industrial share markets in the early months of the year. Although iron and steel shares were steady owing to sustained production in the industry, textile, jute, cement and shipping shares were generally dull with poor turnover, and in August some of the leadiug shares touched their lowest levels for the year. With the declaration of war in September, however, this was replaced by a definitely bullish trend owing to the belief that the intensification of economic warfare in Europe meant brighter prospects for Indian industries, and by the end of the year the quotations for some of the leading iron and steel, textile and jute shares had risen by fifty to one hundred per cent. over their pre-war level.

Bullion Market.

Prices in the gold market generally followed the variations in the sterling-dollar cross-rate during the year. Opening at Rs.37-7-3 the price of ready gold declined to Rs.37-1-9 by the end of January as a result of a rise in the sterling-dollar rate, but thereafter owing to the comparative steadiness of the cross-rate, it was more or less steady until the last week of August, with the quotation fluctuating between Rs.37-2-6 and Rs.36-14-6. From the 25th August to the 2nd September, owing to wide variations in the cross-rate, gold was subject to erratic fluctuations with the ready price moving between Rs.38-4-0 and Rs.39-9-0 per tola. On the outbreak of the war the Central Government issued an Ordinance prohibiting the import or export of gold except on the authority of a licence granted by the Reserve Bank ; the gold market was closed for 3 days from the 4th to the 6th September and when it m-opened on the 7th ready gold was quoted at Rs.40-4-0. On the 16th September owing to the fall in the sterling-dollar rate in New York to 3 . 75 the ready price of gold touched Rs.43-8-0, being the highest recorded in recent years. Thereafter the gold market was generally firm for the remainder of the year, the average ready price during the last 3 months of the year being Rs.41-11-0. The total amount of gold exported during the year was valued at Rs.24·34 crores as compared with Rs.15·60 crores in 1938. During the year the Reserve Bank continued to purchase gold in India on behalf of its correspondents abroad, the value of the gold so purchased amounting approximately to Rs.14.81 crores at current rates of exchange as compared with Rs.3·40 crores in.1938.

In the first five months of the year the silver market was steady with the spot price moving between Rs. 53-10-o and Rs.51-11-0 per 100 tolas but towards the end of June the market became irregular owing to uncertainty about the future policy of the U. S. Treasury with regard to the purchase of foreign silver and the spot price fell to Rs.48-4-0. Thereafter as a result of successive reductions in the price fixed by the United States Treasury for foreign silver there was a certain amount of nervousness in the market and on the 10th July the spot price fell to Rs.44-7-6 but in the absence of further action in that direction gradually recovered to Rs.45-12-0 by the second week of August. On the outbreak of war prices rose sharply owing to the appreciation of the dollar and speculative buying, the ready price touching Rs.63-12-0 on the 21st September. Sales of silver by the Central Government in London against deliveries from the Bombay Mint arrested the rising trend for the time being, but it appeared later again in October as a result of the issue by the Government of India of a notification under the Sea Customs Aot prohibiting the import of silver except under licence. Prices continued to rise for some time thereafter and on the 1st December the ready price touched Rs.66-0-0 on rumours that the Government of India intended to suspend the sale of silver for delivery at the Bombay Mint. The market remained closed unofficially from the 2nd to the 4th December, and normal trading was resumed thereafter round about Rs.64. Later the Reserve Bank announced that with effect from the 14th December the sales of silver for delivery ex-Mint, Bombay, which till then had been conducted by London brokers, would be conducted by the Bombay Office of the Bank. As the Reserve Bank was also a seller of standard rupee silver of 916 fineness, the Bombay Bullion Exchange authorities adopted a resolution accepting such silver as good delivery from the May settlement at a discount of Rs.2-4-0 under silver of 999 fineness. On the 18th December in exercise of the power delegated by the Central Government, the Reserve Bank introduced a scheme of licensing imports of silver on a profit sharing basis, and fixed the minimum and maximum prices for the sale of imported fine silver covered by licence at Rs.62 and Rs.64 per 100 tolas respectively. This step, coupled with the fact that the market had absorbed more silver than would probably be required for meeting upcountry demand for some time to come, and the disappearance of the speculative element from the market, had the desired effect and prices adjusted themselves near this level, the closing price of ready silver for the year being Rs.60-12-0.

Commodity prices.

Although wholesale commodity prices had shown a slight upward tendency since the beginning of the year, it was not until the outbreak of war in September 1939 that there was any substantial rise in the general price level. The Calcutta index number of wholesale prices rose from 95 in December 1938 to 101 in May 1939 but this rise was due mainly to an increase in the prices of sugar, jute and tea, the prices of certain other important commodities such as cotton, wheat and oilseeds remaining generally at a low level. The general index fell to 100 in July and continued at that level in the following month. On the commencement of hostilities in September there was a rapid rise in wholesale and retail prices and by December the Calcutta index number had moved up to 137 or 4 points below the level of 1929. The rise began with intense speculative activity in the jute market which communicated itself rapidly to cotton, cereals, and other sections of the market. On the 8th September in exercise of the power conferred by the Defence of India Ordinance, the Central Government delegated to Provincial Governments its authority to control prices. It was notified that the control should be exercised by the Provincial Governments only in respect of necessaries of life such as food, the cheaper qualities of cloth and medical supplies and that the maximum price to be fixed for them should not be less than 10 per cent. above their ruling price on the 1st September. Later in the same month the Central Government amended its original notification so as to provide for increases in the cost of production or landing cost in the case of imports in calculating the maximum price. The action taken by most of the Provincial Governments under these notifications arrested the upward trend in the market for the time being but it m-appeared in the form of increased speculative activity towards the close of November. Indices of wholesale prices in Calcutta showed that the price of cereals rose from 78 in December 1938 to 105 in December 1939 and that of oilseeds from 107 to 126. Sugar and tea showed still greater advances' and by the end of December 1939 their prices had already passed the average level prevailing in 1929. But the largest rise was in the price of raw jute and jute manufactures which owing to the British Government demand for sand-bags rose to 130 and 172, respectively, in December 1939 as compared with the average indices of 95 and 122 in 1929. Raw cotton and cotton manufactures also showed considerable rises but the prices in December 1939 were still 24 and 25 points respectively below the average prices prevailing a decade ago. Owing to increased export demand the prices of hides and skins also improved, the index number rising from 62 at the beginning of the year to 84 in December.

Balance of trade.

The total value of merchandise exported from India and Burma during 1939 amounted to Rs.198.29 crores as compared with Rs.180·16 crores in the preceding year. The total value of merchandise imported into the two countries was Rs.139.17 crores against Rs.140·36 crores in 1938. The balance of trade in merchandise in favour of India and Burma thus improved from Rs.39.80 crores in 1938 to Rs.59.12 crores in 1939. Among the principal exports jute manufactures showed the largest percentage increase, followed by raw cotton and raw jute, while among the more important imports the largest increase was under sugar. In the earlier months of the year the balance of trade in merchandise was generally more favourable than during the corresponding months of the previous year, and with the outbreak of the war the relative decline in imports improved it further. The net export of treasure during the year amounted to Rs.20·10 crores as compared with Rs.14·20 crores in the previous year so that the total visible balance of trade in merchandise and treasure improved from Rs.54·00 crores for 1938 to Rs.79·22 crores for the year under report.

Exchange.

During the first four months of the year owing to the firmness in money rates and the seasonal activity in the export markets the rupee-sterling exchange was steady with the quotation for ready telegraphic transfers varying between lsh. 5-29/32d. and lsh. 5-15/16d. In January the Bank was able to purchase £6,495,000 on tap at lsh. 5-15/16d. and as intermediate sales of sterling to the Bank continued on an increasing scale, it resumed on the 22nd February the purchase of sterling by tender after an interval of nine months. At the beginning of May owing to the easiness of money the exchange began to sag and touched lsh. 5-27/32d. by the 20th of the month. Sterling tenders to the Bank consequently declined and there were no tenders in the first week of May. In the second week an offer of 110,000 at lsh. 5-29/32d. was rejected and subsequently the Bank discontinued sterling tenders until further notice. Thereafter exchange was generally quiet until the end of July when the rate again firmed up to 1sh. 5-29/32d. owing to increased export of gold and a better showing of export bills.

On the outbreak of war, the Central Government delegated to the Reserve Bank the authority under the Defence of India Ordinance to administer the regulations relating to the control of dealings in coins, bullion, securities and foreign exchange. Early in that month the Reserve Bank issued an explanatory memorandum to the public giving the general lines of the control of foreign exchange transactions instituted by the Central Government. All dealings in foreign exchange were required to be transacted through authorised dealers and the Exchange Banks and certain Indian Joint Stock Banks were licensed as such. No restrictions were placed on the purchase and sale of Empire currencies with the exception of Canadian, Newfoundland and Hongkong dollars, while the purchase and sale of non-Empire currencies was restricted to genuine trade purposes, travelling expenses and small personal remittances. The policy of the Exchange Control was to ensure that all foreign exchange transactions in India were done on the basis of the rates quoted by the London Exchange Control combined with the current rupee rate for sterling, and authorised dealers in foreign exchange were informed that no business must be done by them outside these rates. With regard to gold no restrictions were placed on its transfer within British India, while imports and exports were permitted only on the authority of a licence granted by the Reserve Bank. Licences for import were generally given, while those for export were also granted freely provided that the gold was consigned to the Bank of England or if consigned to America the relative dollar proceeds were sold to the Federal Reserve Banks on behalf of the Bank of England. Special concessions were also made to provide foreign exchange for trade interests such as the cotton market.

In October 1939 owing to the difficulty of obtaining cover in London for positions other than spot and the rise in discount rates there, banks were reluctant to do forward business. The Reserve Bank thereupon entered the forward market in order to provide cover for exports and intimated its willingness to purchase sterling up to 3 months forward at a rate 1/32d. higher per month than the spot rate. During the same month the Bank also raised its tap rate to lsh. 6d. as a result of which the market rate for ready T.Ts. improved to lsh. 5-31/32d. at which level it remained practically unchanged for the remainder of the year. In addition to its direct purchases from banks, the Bank's sterling holdings were augmented by transfers from the Secretary of State for Government purchases of war commodities and the proceeds of silver sales. The total amount obtained by the Bank during the year amounted to £63,000,732-12sh.-8d. at the average rate of lsh. 5-31/32d. as compared with £19,058,000 at lsh. 6-1/16d. in 1938. This enabled the Reserve Bank not only to meet with ease the Government sterling requirements which aggregated £21,635,000 during the year but also to increase the external assets of the currency by £36,000,666-13sh. 4d. from £44,625,180-2sh. 3d. at the close of the previous year to £80,625,846-15sh. 7d. on the 31st December, 1939.

Saheduled Banks.

The development of the scheduled banks continued during the year. Seven more banks were included in the second schedule to the Reserve Bank Act in the course of the year while three banks were excluded. The banks so excluded were Balthazar & Son, who went out of the schedule owing to a change in their constitution, the P. & 0. Banking Corporation, which was amalgamated with the Chartered Bank of India, Australia and China, and the Travancore National & Quilon Bank, which had suspended payment in June 1938 and which was formally excluded from the schedule during the year under report. The total number of scheduled banks at the end of the year was therefore 61 as against 57 last year. A list of these Banks is attached as an appendix to this report.

The tendency for banks to increase their paid-up capital so as to be eligible for inclusion in the schedule was particularly marked and may to a certain extent be attributed to a desire to secure the exemptions given to scheduled banks from the operation of the debt legislation in various provinces and to acquire the status of banks scheduled under the Reserve Bank Act.

The following table compares the position of scheduled banks as on the 30th December 1938 and the 29th December 1939 :—

	As on 30-12-1938.	As on 29-12-1939.	Difference.
1. Demand liabilities in India, & Burma	130,15,36,000	146,57,27,000	+16,41,91,000
2. Time liabilities in India & Burma..	108,44,09,000	104,75,90,000	— 3,68,19,000
3. Cash in India and Burma	7,23,31,000	8,59,27,000	+ 1,35,96,000
4. Balances with the Reserve Bank ..	11,96,62,000	17,01,79,000	+ 5,05,17,000
5. Advances in India and Burma ..	114,57,40,000	143,16,35,000	+28,58,95,000
6. Bills discounted in India & Burma..	4,33,57,000	4,68,18,000	+ 34,61,000

During the first four months of the year the seasonal demand for funds was keener than in the corresponding period of the previous year and the scheduled banks were consequently working on a lower average cash ratio. This demand culminated early in April when the total balances of the scheduled banks with the Reserve Bank stood at their lowest at Rs.10·27 crores and their advances stood at Rs.127·53 crores ; about the same time the scheduled banks also borrowed Rs.2·09 crores from the Reserve Bank apart from rediscounting treasury bills. In the succeeding four months the money market was generally uneventful owing to the slack season and with the gradual return of funds from the mofussil markets the scheduled banks' balances with the Reserve Bank were replenished and improved to Rs.26·61 crores by the 25th August. Early in May the Benares Bank, one of the scheduled banks in the Calcutta circle, suspended payment and applied for a moratorium under Section 277N of the Companies Act ; this had practically no effect on other banks established in that circle although one bank established in the Delhi circle was temporarily affected and the Reserve Bank granted it a limit for the rediscount of bills to enable it to tide over the crisis. The continuous decline in silver prices in the month of July referred to above also gave rise to a number of unfounded rumours regarding a scheduled bank based on its association with silver interests, but confidence was soon restored.

At the beginning of September owing to the outbreak of war in Europe certain scheduled banks were called upon to meet hurried withdrawals induced by fears of what the war might bring, but the deposits soon began to return as the public realised the futility of panic and adjusted themselves to war conditions. Thereafter owing to the rapid expansion in advances to meet the increased demand for finance from the commodity markets, the stock exchange and the silver market as a result of the war, deposits showed an almost continuous increase and by the end of the year the total demand and time liabilities amounted to Rs.251·33 crores which were the highest recorded so far and which exceeded the corresponding figure for the previous year by Rs.12 ·74 crores. A feature of the deposits was the decline in time deposits which fell from Rs.108.44 crores to Rs.104 ·76 crores during the year owing presumably to the preference of depositors to keep their resources liquid. The total advances of the scheduled banks by the end of the year amounted to Rs.143.16 crores which were higher than those of the corresponding period of last year by Rs.28 ·59 crores and which exceeded the peak figure of 1938 by Rs.17 ·62 crores.

The total number of offices of the scheduled banks in India and Burma including head offices, branches, pay offices, etc., increased from 1,125 to 1,277 during the year, showing an increase of 152 offices. The seven banks newly included in the second schedule during the year accounted for an increase of 119 while the exclusion of Balthazar & Son and the P. & 0. Banking Corporation from the schedule resulted in a decrease of seven. The other scheduled banks opened 76 new offices and closed 36 of their existing offices, some of them having closed on our advice a number of their unremunerative branches in order to consolidate their position. A feature of the expansion of branch banking was the increase in branches by the Imperial Bank and the larger scheduled banks which accounted for as many as 47 out of the total of 76 new offices opened during the year.

Non-Scheduled Banks.

During the year the Reserve Bank continued to keep in close touch with the non-soheduled banks. After the issue of the first circular referred to in the last report a second circular was issued during the year indicating the manner in which non-scheduled banks could obtain advice and guidance from the Reserve Bank. The Bank also continued to receive the balance sheets and the cash reserve returns of these banks from the Registrars of Joint Stock Companies and according to the information received from them there were operating in British India on the 31st December 1938 approximately 1,421 concerns which might be considered to be non-scheduled banks. Of these companies a large number claimed that they were not really banks within the meaning of Section 277B of the Companies Act as that section defined a banking company as a company which carried on as its principal business the acceptance of deposits subject to withdrawal by cheque, draft, or order, and they did not

They do not purport to cover the whole range of problems connected with the provision of credit. All the Reserve Bank wish to secure at this stage is the limited but essential preliminary of a net-work of properly run and financially sound banking institutions which will enable them to co-ordinate the credit structure of the country, and more fully utilise the powers of extending credit provided by the Reserve Bank Act.

The main features of the proposals may be summarised as follows. In the first place they try to achieve a simpler and more restricted definition of banking and banking companies than the one given in Section 277F of the Indian Companies Act and to remedy the existing anomaly under Section 277(G) (1) of that Act under which institutions incorporated prior to the 15th January 1937 may continue to call themselves banks and yet refuse to comply with the statutory provisions relating to banking companies. Secondly, they seek to ensure that an institution calling itself a bank has sufficient capital to enable it to operate on a scale large enough to make it possible for it to make a reasonable working profit, even if it confines itself to proper banking business, and that banks with inadequate resources will not open branches in the larger towns where the needs of the public are already being reasonably well catered for. The bill also seeks to prescribe certain statutory proportions between the authorised, subscribed and paid-up capital of banking companies in order to stop the scandal of issuing prospectuses with a very large authorised capital and then commencing business irrespective of the amount subscribed or paid-up while the entirely imaginary figure of the authorised capital still remains on their advertisements to gull the unwary. Thirdly the bill contemplates certain moderate restrictions on bank investments in order to protect the depositors and further for protecting British Indian depositors in the case of banks incorporated outside British India. Lastly an attempt has been made to provide for expediting and simplifying the liquidation proceedings so that in the event of a bank failing the depositors may be paid off with the minimum delay and litigation expense.

Reduction of Stamp Duty.

In the last year's Report mention was made of the Board's request to the Central Government to reduce the rates of stamp duty payable on usance bills of exchange to a more reasonable level as recommended by the Indian Central Banking Inquiry Committee. By a notification dated the 13th January 1940 the Central Government have reduced the duty chargeable on usance bills of exchange made or drawn in and payable in British India and having a usance not exceeding one year to two annas for every one thousand rupees or part thereof. This reduction removes a major obstacle in the way of popularising usance bills and it is to be hoped that it will encourage the growth of a bill market in this country.

Agricultural Credit Department.

Before concluding, a reference must be made to the activities of the Agricultural Credit Department of the Bank which continued to receive the careful attention of the Board throughout the year.

Of the two bulletins issued during the year the first, No. 4, was a monograph written by an Assistant Registrar of Co-operative Societies in the Punjab on the working of a model multi-purpose society in that province, while the second, No. 5, dealt with the Sittang Colonies Banking Union in Burma and Co-operative Colonization. The Department also prepared detailed notes on the questionnaire issued by the Madras Committee on Co-operation and the Officer-in-Charge gave evidence before the Committee. The Department also sent a representative to the Conference of the Registrars of Co-operative Societies held in Delhi in December and was able to assist materially in its deliberations. Though the facility of obtaining its advice on legislation relating to the regulation of moneylending, the relief of indebtedness and other matters having a bearing on agricultural credit was not availed of fully by provincial Governments, the Department continued to study all such legislation introduced and enacted in various provinces and states and to watch their effect. These studies as well as the study of similar legislation in other countries have enabled the Department to form conclusions which it proposes to embody in future bulletins. It has also been studying the various other problems connected with agricultural credit such as restrictions on land alienations, consolidation of holdings and organisation of crop and cattle insurance, and will be publishing its conclusions in due course, Towards the close of the year it also made a special study of the effect of war on Agricultural Credit in India and has issued a circular on the subject.

No Co-operative or Scheduled Bank has so far approached the Reserve Bank for financial accommodation against agricultural paper, but the technical requirements of such accommodation are being settled in consultation with the Bank's legal advisers. The difficulties in regard to agricultural credit lie not in the lack of funds with co-operative banks or other credit agencies but in the freezing of agricultural loans, and the lack of machinery whereby such assets as the agriculturist may possess can be mobilised as security for advances for productive purposes, and not be mortgaged to the hilt for wasteful and unprofitable expenditure. It is therefore not a problem which can be approached from the facile angle of the liberal provision of credit only. As shown in the Bank's Statutory Report the question requires comprehensive treatment and the Agricultural Credit Department has devoted its attention to a close study of its various aspects along the lines laid down in the Report.

As one of the most promising avenues of approach to the problem is the rehabilitation of the Co-operative movement, the Department has given publicity to its views for the improvement of the movement by means of circulars and notes addressed to

Co-operative Institutions. It also issued a circular letter addressed to all Provincial and Central Co-operative Banks indicating how they might organise their business on banking lines and follow correct banking practices because, as in the case of commercial banks, an obviously essential pm-requisite for the provision of credit is that the institutions through which it is provided should be soundly run.

By Order of the
Central Board of Directors,

J. B. TAYLOR,
Governor.

RESERVE BANK OF INDIA

Balance Sheet as at 31st December, 1939.

ISSUE DEPARTMENT.

LIABILITIES.	Re. a. p.	Rs. a.	ASSETS.	Rs. a.	Rs. a. p.
Notes held in the Banking Dept.	17,66,66,897 8 0		A. Gold Coin and Bullion:—		
Notes in Circulation :-			(a) Held in India . .	41,54,47,806 11	
(a) Legal Tender in India	225,20,40,178 0 0		(b) Held outside India.	2,86,97,782 0	
			Sterling Securities . .	107,50,11,290 6	
(b) Legal Tender in Burma only . .	11,42,66,560 0 0		Total of A . .		151,91,56,879 3 0
Total Notes issued . .		254,29,73,635 8	B. Rupee Coin		64,04,37,963 4 6
			Government of India Rupee Securities . .		38,33,78,793 0 6
			Internal Bills of Ex-change and other Corn. mercial Paper . .		Nil.
TOTAL LIABILITIES . .	....	254,29,73,635 8	TOTAL ASSETS . .	....	254,29,73,635 8 0

Ratio of Total of A to Liabilities : 69.739 per cent.

BANKING DEPARTMENT

LIABILITIES.	Rs.	a.	p.
Capital paid up	5,00,00,000	0	0
Reserve Fund	5,00,00,000	0	0
Deposits :-			
(0) **Government—**			
(1) Central Government of India	6,73,17,101	12	11
(2) Government of Burma	1,53,99,708	16	8
(3) Other Government Accounts	4,58,39,988	6	5
(6) Banks	18,86,71,450	13	6
(c) Others	1,15,83,479	12	2
Bills Payable	8,94,267	14	3
Other Liabilities	54,00,281	0	2
TOTAL LIABILITIES	43,51,06,278	11	1

ASSETS.	Rs.	a.	p.
Notes :-			
(a) Legal Tender in India	17,59,30,177	8	0
(b) Legal Tender in Burma only	7,36,720	0	0
Rupee Coin	4,08,815	2	0
Subsidiary Coin	3,65,334	7	2
Bills Purchased and Discounted :-			
(0) Internal	*Nil.*		
(b) External	*Nil.*		
(c) Government Treasury Bills	10,10,80,650	10	1
Balances held abroad*	6,97,80,569	12	6
Loans and Advances to Governments	1,20,00,000	0	0
Other Loans and Advances	Nil.		
Investments	6,42,08,514	3	8
Other Assets	1,05,95,496	15	8
TOTAL ASSETS	43,51,06,278	11	1

* Includes Cash and Short-term Securities.

C. R. TREVOR,
Chief Accountant.
Dated the 16th January, 1940.

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, 1939.

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

S. B. BILLIMORIA & Co.,
SASTRI & SHAH,
P. K. CHOSE,
Auditors.

Dated the 16th January, 1940.

RESERVE BANK OF INDIA

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

INCOME.	Rs.	a	p.
Interest, Discount, Exchange, Commission, etc.	1,22,95,508	4	10
	1,22,95,508	4	10
EXPENDITURE.			
Establishment	34,92,560	12	10
Directors' and Local Board Members' fees and expenses	98,926	2	6
Auditors' fees	12,000	0	0
Rent, Taxes, Insurance, Lighting, etc.	4,55,243	4	0
Law charges	10,873	16	0
Postage and Telegraph charges	69,712	9	4
Remittance of Treasure	11,21,374	3	1
Stationery, eta	89,086	12	6
Security Printing—(Cheque, Note Forma, etc.)	16,47,733	3	2
Depreciation end Repairs to Bank property	1,43,463	14	2
Agency charges	25,44,401	9	8
Contribution to staff and superannuation funds	77,700	0	0
Miscellaneous expenses	2,82,077	4	1
Net available balance	22,50,355	10	7
	1,22,95,508	4	10

Profit and Less Account for the year ended 31st December, 1939—(*contd.*).

	Rs.	8.	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	Nil.		
Surplus available for payment of an additional dividend at the rate of .... per cent.	Nil.		
Surplus payable to the Central Government	5,00,355	10	7
Balance carried forward ..	Nil.		
	22,60,365	10	7

RESERVE FUND ACCOUNT.

	Rs.	a.	p.
By balance on 31st December 1939	5,00,00,000	0	0
By transfer from Profit and Loss Account	*Nil.*		
TOTAL ..	5,00,00,000	0	0

C. R. TREVOR,
Chief Accountant.

J. B. TAYLOR,
Governor.

MANILAL B. NANAVATI,
Deputy Governor.

Dated the 16th January, 1940.

APPENDIX

List of Scheduled Banks.

1. Ajodhia Bank.
2. Allahabad Bank.
3. American Express Co., Inc.
4. Banco Nacional Ultramarino.
6. Bank of Baroda.
6. Bank of Behar.
7. Bank of China.
8. Bank of Hindustan.
9. Bank of India.
10. Bank of Taiwan.
11. Bank of Upper Burma.
12. Benares Bank.
13. Bengal Central Bank.
14. Bhugwandas Bank.
16. Calcutta Commercial Bank.
16. Calcutta National Bank.
17 Canara Bank.
18. Canara Banking Corporation.
19. Canara Industrial and Banking Syndicate.
20. Central Bank of India.
21. Chartered Bank of India, Australia and China.
22. Comilla Banking Corporation.
23. Comilla Union Bank.
24. Comptoir National D'Escompte de Paris.
25. Devkaran Nanjee Banking Co.
26. Eastern Bank.
27. Grindlay & Co.
28. Hongkong & Shanghai Banking Corporation.
29. Imperial Bank of India.
30. Indian Bank.
31. Indo-Commercial Bank.
32. Indian Overseas Bank.
33. Industrial Bank of Western India
34. Jwala Bank.
36. Karnani Industrial Bank.
36. Lloyds Bank.
37. Mercantile Bank of India
38. Mitsui Bank.
39. Mohaluxmi Bank.
40. Nadar Bank.
41. Nath Bank.

42. National Bank of India.
43. National City Rank of New York.
44. Nedungadi Bank.
46. Netherlands India Commercial Bank, N.V.
46. Netherlands Trading Society.
47. New Citizen Bank of India.
48. New Standard Bank.
49. Noakhali Union Bank.
50. Oudh Commercial Bank.
61. Oversea Chinese Banking Corporation.
52. Palai Central Bank.
63. Pioneer Bank.
64. Punjab and Sind Bank.
65. Punjab Co-operative Bank.
56. Punjab National Bank.
57. Simla Banking & Industrial Co.
68. Thos. Cook & Son (Bankers).
69. Union Bank of India.
60. U Rai Gyaw Thoo & Co.
01. Yokohama Specie Bank.

RESERVE BANK OF INDIA

CENTRAL OFFICE.

No. 1.

CALCUTTA, *the 5th January,* 1940.

NOTIFICATION.

It is hereby notified that the fifth Annual General Meeting of the Bank will be held on Monday the 5th February, 1940 at the Town Hall, Calcutta, at 3-30 p.m. (Calcutta Time). The following business will be transacted :-

(a) The balance sheet as on the 31st December 1939 and the Profit and Loss Account of the Bank for the year together with the Auditors' report will be read and considered.

(b) The Auditors will be elected and their remuneration fixed.

In this connection it is notified, in accordance with Election Regulation 20A (i), that two notices have been received to the effect that the following propositions will be moved at the meeting, viz.,

(i) " That Mr. Abani Mohan Roy, M.A., B.Com. (Edin.), F.S.A.A., C.A., R.A., Chartered Accountant of l-B, Old Post Office Street, Calcutta, be appointed as auditor of the Bank for the year 1940."

(ii) " That Mr. Bhupendra Mohan Roy, M.A. (Corn.), A.S.A.A., R.A., Incorporated Accountant of Connaught Circus, New Delhi, be appointed as auditor of the Bank for the year 1940."

J. B. TAYLOR,
Governor.

RESERVE BANK OF INDIA

CENTRAL OFFICE.

No. 4.

CALCUTTA, *the 29th* ***January,*** 1940.

NOTIFICATION.

It is hereby notified that the notices received by the Bank under Regulation 20A of the Reserve Bank of India Regulations for Elections and Meetings of Shareholders referred to in our **Notification** No. 1 dated the 5th January 1940, have since been withdrawn by the shareholders concerned,

J. B. TAYLOR,
Governor.

PROCEEDINGS OF THE FIFTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF THE RESERVE BANK OF INDIA HELD AT THE TOWN HALL, CALCUTTA, ON THE 5TH FEBRUARY, 1940.

The Fifth Annual General Meeting of the Shareholders of the Reserve Bank of India commenced at 3-30 p.m. on the 5th February 1940. It was attended by 1,186 shareholders present in person or by proxy.

Sir James B. Taylor, K.C.I.E., Governor of the Bank, took the chair.

Mr. Manila1 B. Nanavati, Deputy Governor of the Bank, read the notice convening the meeting (see page 42).

The Chairman then addressed the meeting as follows :-

" As the necessary quorum is present I declare the meeting duly convened.

The first business on the agenda is the accounts and report of the Board for the year. As I said last year, we have done our utmost to speed up the administrative arrangements for the publication of our report as soon as the figures are available, and I hope that the arrangements which we have made have given the shareholders reasonable leisure to study it. I propose therefore to take it as read and confine my remarks to a few words of explanation.

2. Our expenditure for 1939 is higher than last year, being Rs. 100·45 lakhs as against Rs. 98·25 lakhs. The larger part of this increase is due to larger payments for remittance of treasure amounting to approximately Rs. 2½ lakhs. This is an obvious result of the growth in the currency requirements of the country consequent on the war. There is also an increase of about Rs.59,000 in establishment charges. This is largely due to the institution of exchange control, the administration of which has

been entrusted to us by the Central Government under the Defence of India Rules. This has necessitated the appointment of three additional officers in Bombay and one in Calcutta, while the status of the Karachi office has also been raised. Previously its functions were confined to those of the Issue Department but with the institution of exchange control we considered it desirable that it should assume banking functions also. The cost of this establishment is however being more than met by the commission charges which we are being paid for dollar transactions.

3. The profits are lower than last year, and as a result we are paying Rs.5 lakhs to Government as surplus as against Rs.20 lakhs last year. Our gross profits were considerably larger on account of the rise in short money rates both in India and the United Kingdom, particularly after the outbreak of the war, but they have been offset by the depreciation in our holding in securities. We added to our holding of rupee securities throughout the year with a view to steadying the gilt-edged market both for Central and Provincial issues. The outbreak of war led to a considerable drop which had not been wholly made good by the end of the year, though there has been a further rise since, and the rise in short money rates consequent on the outbreak of hostilities occurred too late in the year to offset this entirely. All our securities are however shown at or below their market price at the end of the year, and these operations undoubtedly contributed materially to the successful floatations made by the Central Government and the three provinces, Madras, Central Provinces and the Punjab, even in spite of unfavourable outside conditions due to apprehensions of the coming conflict.

4. Before turning to the general subject-matter of my speech I would like to refer to three legislative proposals which we have referred to Government at various times and which, I understand, they are considering putting before the Legislature.

The *first* is to consider whether any steps could be taken to limit the process of the concentration of the shares of the Bank in too few hands with the consequent sterilisation of votes, a matter which has been referred to in this and the last year's Reports. It may be difficult, and even impossible, to find a complete solution, but in view of the expressed desire of the Legislature when the Act was passed that the Board should watch the position and report developments, we felt that it was incumbent on us to put the matter before Government. The *second* is a comparatively minor amendment to enable us to act as agents for the Ceylon currency authority. The wording of our Act in this matter is unduly restrictive. It allows us to act as agents for Central Banks, but as several countries, such as Ceylon, have authorities in control of their currency which are not banks, it seems desirable that our power should be extended to cover these also. The *third* suggestion which we made two years ago is that the accounting year of the Bank should be altered to July-June in place of January-December. Though this change may not be a matter of first-class importance, it will be, we feel, of material help both to us and to our shareholders. The end of December coincides with a very heavy outgo of currency, and at the same time there are the Christmas and New Year holidays, so that we and the Auditors are put to considerable inconvenience to comply with the statutory requirements which prescribe that the Annual General Meeting should be held within six weeks of the closing of the accounts, particularly as we wish our report to present a fair annual picture of the financial position of the country. December is also a somewhat inconvenient date from this point of view, because it comes right in the middle of the most active part of the business season. The normal Indian busy season extends from the latter part of October to about the end of May, so that if our report is to give a balanced account of Indian conditions from year to year, July would be a much better time to write it than January. In addition, if the report is written in July we would be able to incorporate in it Government's figures which are based on the financial year ending on the 31st March, and this is a matter of considerable importance from the point of view of statistical continuity. Furthermore, as the great majority of the commercial banks close their accounts on the 31st December, this will give us time to consider our report in the light of their annual balance-sheets. The consequential changes are of a simple character. A meeting of the shareholders would have to be held in August of this year, and arrangements would also have to be made for an interim dividend for the half year. Thereafter, the ordinary procedure would come into force again. It has yet to be seen, however, whether Government will be able to introduce this legislation in this session in view of their somewhat heavy programme.

Before discussing the general financial features of the year, I would also like to draw attention to an inadvertent inaccuracy on page 20 of our Report in which we say that Messrs. Balthazar and Son went out of the schedule "owing to a reduction in their capital." This should read "owing to a change in their *constitution*." This alteration will be made in the copy of the Report as finally published.

6. After an initial set-back which was the natural result of the outbreak of hostilities and which was far less severe than in 1914 owing to the improvements in the machinery for monetary control which enabled us to move from a peace to a war time footing without altering the bank rate, the markets here soon recovered their stability not only in speculative shares, which might have been anticipated, and which was not altogether to be welcomed, but in gilt-edged securities also, and the undertone is still very steady, In my speech last year I gave reasons for my confidence that a steady securities market was likely to continue in India, and these reasons to my mind still hold good so long as budgetary equilibrium is maintained, as it has been in the past, both by the Central and Provincial Governments,

and capital expenditure, particularly governmental, is restricted to really productive purposes.

6. As I said earlier, we have now passed from a peace time to a war time footing, and without being unduly pessimistic I feel that these conditions are likely to continue for some time. Even when this war comes to a conclusion the drastic economic reconstruction, which it has entailed on account of the much greater expense of waging war in a mechanical age must necessitate to my mind the continuance of many special measures if the aftermath is to be avoided or minimised. The essential feature of war economy is that it involves control and this control is likely to be extended as markets which are essentially organised on a competitive and profit-seeking basis find themselves increasingly unable to deal with the shocks and restrictions which war inevitably imposes. In this war we are fortunate in that the machinery of monetary control is more highly organised than in the last war but even this improvement in organisation carries with it dangers which must not be overlooked. People are too prone to oversimplify problems. To many monetary control means cheap money, and it is often argued both in this country and elsewhere that the better the control the cheaper it should make money. This of course is essentially fallacious. The business of the controlling authority, as I see it, is to do as far as possible what freely operating markets would have done for themselves if they were not being subjected to abnormal stresses beyond their control or their ability to foresee. In the absence of control these would be reflected in violent fluctuations upwards and downwards. To take money as an instance, if we left the markets to themselves there would be large rises and falls in the exchange value of the rupee and correspondingly violent fluctuations in interest rates, the banks' lending rates rising quite possibly to 7 or 8 per cent. during the busy season followed by equally violent drops later. It is obviously advantageous to have machinery to control and iron

out these fluctuations, and thereby give trader8 greater stability for their legitimate transactions. On the other hand, if one goes further and tries to use such machinery to carry out theoretical policies and do what the market if left to itself in normal circumstances would not do one is liable sooner or later to find oneself in a mess. Nothing that has happened in the last twenty years has to my mind invalidated the old doctrine that capital comes from saving, so that the whole question resolves itself into balancing three factors, first the desire to spend, second to invest in speculative securities and third to invest in securities bearing a fixed rate of interest. Spending and speculation are necessary if productivity and wealth are to be increased but at the same time if the rates which the cautious investor can get for his fixed interest security are to be reduced too far he will stop investing and spend all his money either in gambling or in unprofitable expenditure. The mischief would not end there. One of the most healthy method8 of investment is insurance to provide against death, sickness and old age, and sound insurance companies themselves must confine themselves to first class investments. If the rate on these is unduly forced down they must either reduce their benefit8 or be tempted into more dangerous fields of speculation in the endeavour to obtain a better return on their money. It is undoubtedly true that investors will be willing to take a considerably lower rate of interest if the controlling authority can take steps to provide against unnecessary fluctuations or depreciation in the capital value of their holdings but even that only carries us to a certain point. Too great a reduction in the effective rate of interest must lead to drying up the investing habit in which case the only alternative is inflation, because Government must be efficiently carried on, particularly in war time, and must get its money somewhere. I do not wish to make this an occasion for theorising ; I am merely pointing out that the controlling authority has to take all these factor8 into consideration. It has to keep money on an even keel so as to encourage investment and to see that speculation, though a necessary element in the market, does not go too far. It cannot proceed on the easy assumption that the better the control the cheaper it should make money. After all, no high degree of technique is required if the whole of monetary theory simply boils down to turning on the printing press.

7. At the same time India is in a remarkably strong position both from the point of view of Government finance and of industry. Agriculture is still lagging behind but the rise in the prices of raw materials has already gone a long way to remedy this and we hope that the agriculturist and the co-operative societies and other organisations which are responsible for supplying him with credit will see that the proceeds of these increased prices are devoted as far as possible towards rehabilitating his position and putting it on a sounder footing instead of being squandered in unprofitable expenditure, even though such expenditure may for the time being promote production and increase the appearance of prosperity. These however are dangers which luckily are still potential rather than actual, though a word of warning in timo may not be amiss, and looking'at India's position from all points of view I do not think that I am too optimistic in saying that I consider that it is still very sound and that there is no reason to anticipate any unnecessary stringency of money or curtailment of credit. At the same time, it must be remembered that war profits are artificial and transient, and that there must be an aftermath in which the world forces now concentrated on the war will be released for commercial production. Competition then will be keener than ever before, so that any profits now accruing should be used to strengthen our resources against the hard times coming.

8. From a domestic point of view the most important, and I hope the most constructive, task which we have performed in the past year has been the consideration and submission to

Government of draft proposals for the reform of India's banking structure. I would like again to make clear what we have said in the report that this is not an attempt to cover in one measure the whole range of problems dealing with the provision of credit but merely to ensure that as far as possible those classes which at present hoard their money or spend it unprofitably are induced to save by being given security that if they place their money with an institution calling itself a bank that institution will be reasonably well-run. Critics may say that legislation in these matters cannot take us very far and I agree, but that is no reason why we should not attempt to clear the ground of an unhealthy undergrowth which is impeding the development of the country. So far as I can see, the provisions of the Reserve Bank Act for the extension of credit are amply adequate for all practical purposes. The difficulty is that in India the channels through which they can percolate, particularly outside the larger towns, are lamentably inadequate and unsatisfactory. Out of 1695 towns in British India with a population of 5000 or over, only about 736 have an office or branch of a joint stock bank, and of these 284 are served exclusively by non-scheduled banks. The largest banks may be so soundly run that they can challenge comparison with any country in the world but the standards of living outside the larger towns are still so low that something simpler and cheaper is required if banking facilities are to be properly extended. What we are trying to ensure is that these smaller and simpler banks which in our view have a definite function to perform in the financial structure of the country should be compelled to observe certain minimum standards. I hope that our proposals will be regarded from this point of view and that critics will not adopt the attitude that because everything cannot be done at once therefore nothing should be done at all.

9. We have explained our proposals at length in our memorandum to Government, and summarised them in our report. So I will not repeat the details here.

There is however one important aspect of the problem which has been brought to light by the recent banking failure in Southern India to which we have not alluded in our recommendations, but which to my mind merits the most serious consideration, and that is the difficulty, delay, and expense which is caused by the number of independent jurisdictions when a bank which is operating all over India has to close its doors. It is a highly technical question on which as a layman I would not venture to express an opinion, but it should not be beyond the capacity of the lawyers to devise some procedure whereby liquidation proceedings could be centralised and effective measures taken to secure that all the assets are pooled for the equal benefit of all the creditors. We are to a certain extent endeavouring to meet this by recommending that banks operating in British India shall maintain a reasonable proportion of their assets within our jurisdiction, but this clearly does not go all the way and more effective legislation appears to be indicated.

10. In touching on the failure of the Travancore National and Quilon Bank I also feel that it is incumbent on me to make clear what view the Board of our Bank took of the last stages of that Bank's demise and why we acted as we did. From the time of the amalgamation we were uneasy. We recognised that an amalgamation if soundly conducted might be of material assistance in improving the position, and for that reason we granted a liberal credit to cover the actual period of the changeover. Thereafter, however, we made it quite clear that no further assistance could be sought from us until they had given us full information as to the actual position of the amalgamated institution. They had plenty of time to do so had they agreed at once, and in that case a lot of trouble might have been avoided, but they refused to give us the facilities which we asked for to enable us to make a full inspection of their books and in the circumstances we did not consider that we

would be justified in giving what would have amounted to unconditional assistance. Nobody regretted more than ourselves the ultimate failure and the cruel losses thereby caused to those who had deposited their money with the Bank, most of them drawn from the poorer classes of the community who had. been attracted by the tempting rates of interest.

11. In conclusion I would again like to refer to the activities of our Agricultural Credit Department. It has continued to do good work in collecting information about experiments in agricultural credit both in India and abroad, and agricultural problems over the world do not differ so much as might be supposed. We have kept impressing on those responsible for agricultural credit and particularly for the co-operative movement that the essentials of sound banking are the same everywhere, that co-operation however laudable its aims cannot afford to ignore the principles of sound banking, and that it should get its profits first before it starts to pass them back to its members and shareholders. The bulletins which the Department has issued show that good practical work is being done both in India and Burma on these lines and I hope that their perusal may lead to a more realistic approach to the subject."

At the conclusion of his speech the Chairman invited questions or comments on the annual report and accounts of the Bank, whereupon Rai Bahadur Paresh Nath Mukerji asked as

(a) What was the exact nature of the assistance rendered by the Reserve Bank to the Travancore National & Quilon Bank, Ltd., and whether it was covered and whether the Reserve Bank suffered any loss as a result of the failure of the bank ;

(b) Whether in introducing banking legislation the Reserve Bank was framing different sets of standards for banks operating in larger towns, those in smaller towns, and those in rural areas ;

(c) Whether in connection with the activities of the Reserve Bank in Burma India was fully covered in regard to the overhead charges borne by her in the matter of running the Bank in Burma.

The Governor replied as follows :-

(a) As regards the Travancore National & Quilon Bank the Reserve Bank gave them a large line of credit to cover the actual period of the changeover, which expired in the December following the changeover, so that the Bank had no commitments outstanding with the Travancore National & Quilon Bank and lost nothing on that account.

(b) The Bank has suggested a differentiation between banks operating in the larger towns and those operating in the smaller towns in their Proposals in respect of the amount of the initial capital which the bank must possess before it could start operations. The Chairman said that speaking from memory in the absence of papers before him it was the intention to fix an overriding capital of Rs. 20 lakhs, with a minimum of Rs. 5 lakhs for banks in the larger towns, Rs. 2 lakhs for those in smaller towns and Rs. 1,00,000 for those in smaller rural areas, but that apart from this no other differentiation was proposed.

(c) With regard to Burma, the question of loss did not arise because the monetary arrangements under which the Reserve Bank were operating thecurrency of Burma as well as their own in India had provided for profit-sharing and also provided that correct book accounts were being maintained to provide for the contingency of any later separation, so that only a fair share would be handed over to the separated Bank of Burma if at any time they decided to make their own arrangements ; there was thus no question of any loss on account of overhead charges in this regard.

On the Chairman inviting any further questions, Dr. M. M. Roy pointed out that the Committee of the Central Board of the Bank met in 1939 39 times in Bombay and 12 times in Calcutta whereas in 1938 the relative figures were 30 and 20 and requested the Chairman to clear up why this partiality to Bombay in the matter of holding Committee meetings had been shown. The Chairman observed that he did not think that it could be fairly described as a case of partiality as between Calcutta and Bombay inasmuch as the Reserve Bank at present had their head office functioning in Bombay but that this did not necessarily affect his own movements and the consequent place of Committee meetings. The outbreak of the war was responsible for his presence in Bombay in September and October. He was in Calcutta when the war broke out but had to move over to Bombay to organize the exchange control activities of the Bank.

In the absence of any further questions or comments the Chairmansaid that the accounts might be formally adopted. Thiaproposal was seconded by Sir Purshotamdas Thakurdas andcarried unanimously. Sir Purshotamdas Thakurdas added furtherwith reference to Rai Bahadur P. N. Mukerji's second question that the object of the Reserve Bank in putting forward theProposals for Banking Legislation was to elicit public opinion as a basis for discussion and that if any better suggestions were received on the questions put forward by the shareholders the Bank would be glad to consider them.

The meeting then proceeded to the formal election of auditors for the year 1940. Director Mr. B. M. Birla proposed and alternate Director Mr. Zora Singh seconded the following proposition, viz. :

" That Messrs. S. B. Billimoria & Co., Messrs. Sastri & Shah and Mr. P. K. Ghosh be elected as auditors of the

Bank for the current year on a remuneration of Rs. 4,000 each ",

which was declared carried unanimously.

The proceedings terminated with a vote of thanks to the Chairman proposed by Raja Bahadur Mani Loll Singh Roy.

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