

RESERVE BANK OF INDIA

REPORT OF THE CENTRAL BOARD OF DIRECTORS FOR THE YEAR ENDED THE 30TH JUNE 1942

To be presented to the Shareholders at the Eighth Annual General Meeting to be held on Monday, the 10th August 1942, at Madras in the Museum Theatre, Pantheon Road, at 3 p.m. (Standard Time).

(1)

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

For the year 1st July 1941—30th June 1942.

In accordance with section 14 of the Reserve Bank of India Act, 1934, the Central Board of Directors presents to the Shareholders this Annual Report and the Accounts of the Bank for the eighth accounting period beginning the 1st July 1941 and ending the 30th June 1942.

ANNUAL ACCOUNTS.

After payment of expenses of administration and provision for sundry liabilities and contingencies the net profit amounts to Rs. 3,41,53,681-2-0

Of this amount, the sum of Rs. 17,50,000-0-0 will be utilised for payment to shareholders of a dividend at the rate of 33 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. 3,24,03,681-2-0
for payment to the Central Government
in accordance with the said section.

The net profit is higher than in the previous year by Rs. 62·27 lakhs owing primarily to the increase in the interest-bearing assets of the Bank.

The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Mr. P. K. Ghosh of Auditors. Calcutta and Messrs. Sastri and Shah of Madras who were duly elected as auditors of the Bank by the shareholders at their meeting held at Delhi on the 11th August 1941 in accordance

with section 50(1) of the Reserve Bank of India Act, 1934. The present auditors, being eligible, offer themselves for reappointment.

In terms of sub-sections (1) and (4) of section 8 of the Act, the Central Government have, by a notification dated the 16th February 1942, reappointed Sir James B. Taylor, K.C.I.E., as Governor of the Bank for a further period of five years with effect from the 1st July 1942. Sir Manilal B. Nanavati, the Deputy Governor of the Bank, retired on the 22nd December 1941, and Mr. C. D. Deshmukh, C.I.E., was appointed in his place by the Central Government on the recommendation of the Central Board. The Board wish to place on record their appreciation of the services rendered by Sir Manilal Nanavati during his term of office as Deputy Governor.

The Board regret to have to record the death, on the 23rd January 1942, of Sir P. Raghavendra Rau who had been a Director of the Board on several occasions since March 1940.

The Hon'ble Mr. C. E. Jones, C.S.I., C.I.E., I.C.S., continued as the Director nominated by the Central Government in terms of section 8(1)(d) of the Act for the greater part of the year. The late Sir Raghavendra Rau and Mr. A. C. Turner, C.I.E., M.B.E., I.C.S., were nominated to this directorship from November 1941 to January 1942 and from April to June 1942 respectively.

On the expiry of the term of the Directors representing the Eastern (Calcutta) Area Local Board under sub-section (4) of section 8 of the Act, an election of the members of that Local Board was held in November 1941. Subsequently, at a meeting of the elected members of the Local Board held in Calcutta on the 2nd January 1942, Mr. Braj Mohan Birla and Dr. Narendra Nath Law were elected as Directors of the Central Board in terms of sub-section (7) of section 9 of the Act.

On the 13th January 1942, Sir Chunilal B. Mehta, an elected Director from the Bombay register, resigned from the Central Board, and on the 29th January the Local Board, Western (Bombay) Area, elected Mr. Kasturbhai Lalbhai in his place.

(3)

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 30 times in Bombay, 20 times in Calcutta and once each in Madras and Delhi.

As stated above, there was one Local Board election during the year in the Eastern (Calcutta) Area in November 1941, preliminary to the election of Directors for that area and the new members of the Local Board assumed office on the 23rd December.

In March 1942, Mr. A. N. Wardley, an elected member of the Calcutta Local Board, resigned his membership in terms of section 10(1)(a) of the Act.

In December 1941, Rao Bahadur Dr. P. C. Patil, a nominated member of the Bombay Local Board, resigned and in February 1942, the Central Board nominated Professor D. R. Gadgil in his place in terms of section 12(3) of the Act. In terms of the same section, the Central Board nominated in April 1942 Mr. Manibhai Vasanji Desai to be a member of the Bombay Local Board in the vacancy caused by the death of Dewan Bahadur A. U. Malji. The late Dewan Bahadur Malji was associated with this Local Board since its inception and his loss is greatly deplored.

The accompanying table shows the distribution of the Bank's shares as on the 30th June 1941 and the 30th June 1942.

	Distribution of shares as on the 30th June 1941	Distribution of shares as on the 30th June 1942
Bombay	2,12,823	2,18,649
Calcutta	1,21,501	1,19,941
Delhi	87,168	85,762
Madras	59,826	58,810
Rangoon	18,682	16,838
Total ..	5,00,000	5,00,000

						Number of share- holders as on the 30th June 1941	Number of share- holders as on the 30th June 1942
Bombay	..	..	..	..	..	19,072	18,441
Calcutta	..	..	..	..	..	12,246	11,647
Delhi	..	..	..	..	..	12,813	12,181
Madras	..	..	..	..	..	7,973	7,697
Rangoon	..	..	..	..	..	1,364	1,205
Total . .						53,468	51,171
						30th June 1941	30th June 1942
Average number of shares held by each shareholder						9.4	9.8

The total number of shareholders declined further during the year from 53,468 to 51,171. The number of shares on the Bombay area continued to expand at the expense of other areas as in previous years.

Owing to the extension of the war to Burma and the consequent influx of evacuees from that country into India, special arrangements are being made for the transfer of shares held by evacuees on the Burma register to other registers in India.

No new denominations of India or Burma bank notes were issued during the year. In order, however, to relieve the growing pressure on rupee coin, which term includes the Government of India one-rupee notes, the Bank has decided to issue **two-rupee** notes in terms of section 24 of its Act. The design, form and material of the note have been approved by the Government of India and arrangements are in hand for the printing of the note, which, it is hoped, will serve as a convenient unit of currency intervening between the one-rupee note and the five-rupee note.

A new series of Government of India one-rupee notes of King George VI 1940 pattern was issued in the first week of July 1941. One-rupee notes of King George V 1935 pattern, however, continue to be legal tender.

Owing to the extension of hostilities, temporary offices of the Bank were established at Allahabad and Akola Bank's Offices. during the year while the Rangoon Office was also removed to Bombay in May 1942.

The Bank's Report on Currency and Finance for the financial year ended the 31st March 1942 was published Publication of the Currency Report. in June 1942. This report deals with economic and financial conditions in the country and with Government finances in greater detail than the Annual Report of the Central Board to the Shareholders which is primarily confined to a review of the Bank's working during the accounting year.

With the intensification of hostilities in Eastern Europe in the autumn of 1941 and the entry into the war of International Economic Situation. Japan and the United States in the winter of that year, the war developed on a scale never witnessed before in history. The necessity for increasing essential war production to the maximum possible extent and for pooling the financial resources required for this purpose consequently dominated the economic situation throughout the year, the former involving the central direction of production and foreign trade, rationing of essential commodities, requisitioning and the establishment of priorities, and the latter involving higher taxation, increased Government borrowing, mobilisation of foreign assets and the adoption of anti-inflationary measures such as the control of prices, wages and profits. The entire economic resources of the belligerent nations were mobilised to an ever-increasing extent, and productive resources were diverted from the manufacture of civilian goods to the production of military equipment. At the same time, the increase in employment and wages resulting from the expanding defence programmes led to greater demand for consumer's goods and their prices continued to rise. The cost of living began to mount up and the inherent inflationary possibilities of the situation received increasing attention from the financial authorities, especially after the entry of the United States into the war and the consequent rapid increase in the defence expenditure in that country from

\$6,080 million in the year ending 30th June 1941 to an estimated figure of \$23,997 million for the year ending 30th June 1942 and \$52,786 million for the year ending 30th June 1943.

The economic situation in India reflected the developments in the war situation. The extension of hostilities to the Pacific led to a virtual cessation of trade with the Far Eastern countries, and had far-reaching consequences on the country's agricultural and industrial economy. With the closure of important export markets for a number of commodities, particularly raw cotton and raw jute, and the cessation of imports of foodgrains, notably wheat and rice, a reduction in the acreage under cash crops and a corresponding increase in the area under foodgrains was indicated, and various measures were adopted during the year in order to induce cultivators to grow more food-crops. The repercussions of the interruption of trade with the Far Eastern countries on the country's economy were also reflected in the trend of wholesale prices, and while the indices of foodstuffs tended to rise, those of raw cotton and raw jute showed a downward tendency, which, however, was partially arrested towards the close of the year. The expansion of the defence programme and the curtailment of imports of manufactured articles, particularly from Japan, gave a further stimulus to Indian industries and industrial production as shown by the available figures up to March 1942, was generally maintained at a higher level than in the corresponding period of the preceding year. Owing mainly to increased offtake by the Empire and Allied countries, the balance of trade in merchandise in favour of India rose to Rs.103·90 crores in the first eleven months of the year under review from Rs.22.78 crores in the corresponding period of 1940-41. War purchases by His Majesty's Government, which are paid for in sterling and which are not included in these figures, also showed a considerable rise. The resultant large additions to India's sterling resources were far in excess of the country's normal requirements, and enabled the Government of India to take measures for the repatriation of their remaining non-terminable sterling debt. The resilience which the monetary and banking system continued to show in adapting itself

to the changing conditions was remarkable, and notwithstanding occasional withdrawals induced by war developments in the Pacific, the total demand and time liabilities of the scheduled banks in India rose from Rs.287.29 crores to **Rs.364.46** crores during the year. The total amount of cheques passed through the Clearing Houses in India supervised by the Reserve Bank also increased from Rs.20,43 crores to **Rs.25,73** crores. Monetary conditions remained easy and the Reserve Bank of India rate continued unchanged at 3 per cent. Owing to nervous selling caused by war developments in the Far East, gilt-edged values fell sharply during February, but the fixation of minimum rates prevented a further decline in prices, and with the reappearance of a small but sustained investment inquiry during the succeeding months, most of the securities made up the greater part of their earlier losses.

The downward trend in money rates noticed towards the close of the previous year became more pronounced during the first part of the year under review, but the outbreak of war with Japan and the increase in the demand for funds caused partly by large purchases of bullion and partly by a certain amount of withdrawals from banks led to a rise in the call rate in Bombay from $\frac{1}{4}$ per cent. to 1 per cent. in the second week of December. With some slackening of speculative activity, it receded gradually to $\frac{1}{4}$ per cent. by the middle of January, but rose again to 1 per cent. in the middle of April owing to an increase in the demand for funds resulting partly from the migration of population to upcountry places. The rise however was temporary and with a slackening in the exodus, the rate slipped back to $\frac{1}{4}$ per cent. by the end of April and remained unaltered at that level up to the close of the year. Fixed deposit rates also rose on the outbreak of war with Japan, the three months rate advancing from $\frac{3}{4}$ to 1 per cent., the six months rate from 1 to $1\frac{1}{4}$ per cent. and the twelve months rate from $1\frac{3}{4}$ to 2 per cent. Thereafter, term money continued to be in fair demand up to the end of the third week of April and banks were occasionally willing to offer a quarter per cent. more for fixed deposits in order to strengthen their position against possible withdrawals. Withdrawals, however, were scanty and

with the gradual return of confidence, fixed deposit rates assumed a downward trend, which became more pronounced as the slack season approached. The three months rate receded gradually to $\frac{1}{2}$ per cent., while the six and twelve months rates also declined to 1 per cent. and $1\frac{1}{2}$ per cent. respectively by the end of the year.

Up to the outbreak of war in the Far East, the gilt-edged market in India was quietly steady with $3\frac{1}{2}$ per cent. undated rupee paper standing in the vicinity of Rs.96. Following the outbreak of war with Japan, rupee paper declined to Rs.92 by the middle of December but soon recovered to **Rs.92-12-0** as a result of investment support at the lower level. The Government announcement on the 24th December that they had taken action to repatriate practically the whole of their remaining sterling debt amounting to about **£158** million had a strengthening effect, and when the market reopened on the 27th December, rupee paper was quoted at **Rs.93-4-0**. With the reinvestment of their vested loans by insurance companies and other institutional investors, the quotation rose further to **Rs.95-8-0** on the 22nd January, but war developments in Burma had an adverse effect, and the rate declined sharply on the 2nd March, transactions being recorded as low as Rs.84. With a view to preventing an unreasonable marking down of values, the Government of India issued an Order under the **Defence** of India Rules on the 2nd March prohibiting dealings in securities below certain minimum prices, the minimum price fixed for rupee paper being **Rs.87**. The fixation of minimum prices prevented a further decline in values, and when the market reopened on the **4th**, rupee paper was quoted at the minimum. Owing to buying support at the lower level, particularly from institutional investors, it advanced to **Rs.91-8-0** in the first week of June and remained practically unchanged at that level till the third week of the month after which it declined slightly owing to war developments and closed at **Rs.90-14-0** for the year.

As Indian **Port** Trust, Municipal and Improvement Trust securities were also depressed by fears of damage by hostile action

an announcement was issued on the 6th June 1942 of the decision of the Central and Provincial Governments acting together to stand behind these securities, which steadied up their prices.

As a measure of protection, the attention of the public was also drawn by the Bank to the advantages of converting their Government Promissory Notes into Stock Certificates, and the Public Debt Office undertook to effect such conversions free of charge. The total amount so converted from the 1st March to the 30th June 1942 was Rs.96.03 crores. It was also decided to waive the fee leviable for the reconversion of Stock Certificates into Promissory Notes.

The loans floated by the Central Government during the year were the 3 per cent. Second Defence Loan 1949-52, Three-Year Interest-Free Defence Bonds and Ten-Year Defence Savings Certificates, the Second Defence Loan being closed on the 14th February. The total subscriptions to the first two loans up to the 30th June 1942 were as follows :

	Rs.
3% Second Defence Loan 1949-52	59,16,07,000
Three-Year Interest-Free Defence Bonds	2,73,15,000

No Provincial Government loans were floated during the year.

The war continued to be the dominating influence in the industrial share market. Increasing war orders and the virtual elimination of Japanese competition as a result of the freezing of Japanese assets towards the end of July had a favourable effect on market sentiment, and apart from occasional setbacks caused by news from other theatres of war, the trend of prices, particularly those of cotton mill shares, was generally upward. The commencement of hostilities in the Pacific, however, led to panicky selling and in order to avert an unreasonable fall in prices, the authorities of the Bombay Stock

Exchange fixed, with the previous sanction of the Provincial Government, minimum rates on the 17th December for 28 shares on the forward list subject to certain conditions in respect of the liquidation of outstanding forward business which were modified from time to time. The authorities of the Calcutta Stock Exchange also fixed minimum prices for the more important shares on the 8th December. Trading, however, was practically at a standstill and rates were nominally quoted at the minimum. In view of the increasing artificiality of these minima the authorities of the Bombay Stock Exchange withdrew them on the 27th March. With the removal of minimum rates, prices assumed a downward trend which was, however, arrested by the Central Government announcement, on the 8th April, of their scheme for insuring factories against war risks. The removal, on the 20th May, of restrictions on jobbing in shares on a cash basis and the subsequent decision of the authorities to permit restricted forward trading led to a further improvement in rates which could not, however, be maintained owing to a general disinclination on the part of operators to enter into commitments in view of the uncertainties of the war situation. As a result, the tone of the market remained subdued at the close of the year.

The outbreak of war with Japan led to an outburst of speculation in the bullion market and prices, which had moved within a narrow range during the first five months, underwent violent fluctuations in the remaining part of the year. The price of ready gold which had ranged from Rs.41-11-0 to Rs.44-13-0 between July and November rose to the record level of Rs.58-4-0 on the 12th March. Thereafter the trend was reversed and the quotation declined sharply to Rs.44-12-0 on the 18th April. As a result of buying support at the lower level, it recovered to Rs.49-8-0 on the 25th April, after which it moved within comparatively narrow limits up to the 20th June with the quotation fluctuating between Rs.46-14-0 and Rs.49-13-0. War developments in the Middle East, however, led to a definitely bullish trend thereafter and the rate rose steadily to Rs.50-15-0 by the close of the year.

Movements in silver were more or less parallel to those in the gold market. During the first five months of the year, the ready rate moved between Rs.62-6-0 and Rs.63-3-0. The outbreak of war with Japan intensified the demand and spot silver touched Rs.71-11-0 on the 20th December. Thereafter it fluctuated between Rs.68-6-0 and Rs.71-11-0 till about the middle of February, as the tendency towards a further rise in prices was for the time being checked by sales of standard rupee silver by the Reserve Bank on Government account. The undertone, however, remained firm and with the discontinuance of the sales of silver by the Reserve Bank with effect from the 20th February, a renewed outburst of speculation carried the price to Rs.96-8-0 on the 12th March. Thereafter, as in the case of gold, there was a fairly sharp fall in prices, the quotation declining as low as Rs.75-4-0 on the 18th April. It recovered to Rs.84-12-0 on the 27th April and fluctuated between Rs.80-4-0 and Rs.83-14-0 till the 11th June after which developments in the Middle East led to increased speculative activity and erratic fluctuations in prices. Ready silver rose to Rs.85 on the 12th June and after comparatively wide fluctuations fell to Rs.83-3-0 on the 20th. Thereafter, although the offtake was inconsiderable, the undertone of the market remained bullish as a result of war developments and the rate rose to Rs.85-6-0 on the 29th. The Reserve Bank made some sales of refined silver on a spot basis on the 30th June as a result of which the market steadied and closed at Rs.84-11-0 for the year.

The trend of commodity prices reflected the repercussions of war developments on the economy of the country, amongst which must be recorded transport difficulties resulting in wide fluctuations of prices between the producing and the consuming centres. The prices of the commodities which constituted the greater part of the exports to the Far Eastern countries registered a decline after the outbreak of war with Japan. Foodstuffs, such as rice and sugar, formerly imported from Burma and the Netherlands East Indies, as also manufactured articles which were previously imported from Japan, recorded a sharp rise. As a result, the Calcutta index number of

wholesale prices for all commodities (July 1914=100) rose further from 137 in June 1941 to 182 in June 1942.

Among foodgrains, the index number for cereals rose from 114 to 154 during the year while that for pulses advanced from 99 to 151 during the same period. The price of sugar recorded an increase of 71 points to 210, while that of tea fluctuated widely between 169 and 263. The prices of "other food articles" also tended to higher levels, and their index rose by 109 points to 294. Among textiles, large government orders for sandbags led to a rise in the indices for raw jute and jute manufactures from 73 and 141 in June 1941 to 104 and 167 respectively in September, but the dislocation of shipping in the Pacific after the outbreak of war with Japan resulted in a sharp fall and the indices declined to 72 and 126 respectively in June 1942. Raw cotton, which had improved from 81 in June 1941 to 88 in July, declined to 70 in March 1942 as a result of war developments but rose again to 90 in June on expectations of a reduction in the acreage. The index for cotton manufactures rose from 158 in June 1941 to 237 in November. Thereafter there was a decline as a result of nervous liquidation of stocks following developments in the neighbouring theatres of war and the index fell to 171 in February 1942 but recovered to 190 in March. Owing to their war-time importance the indices of metals and hides and skins advanced by 66 and 16 points to 263 and 87 respectively.

The total value of India's foreign trade continued to expand during the year. The value of merchandise **Balance of Trade.** exported from the country on private account amounted to **Rs.241.91** crores during the eleven months ended May 1942 as compared with **Rs.169.03** crores in the corresponding period of 1940-41, while that of imports was slightly lower at **Rs.138.01** crores as against Rs.146.25 crores. As a result, the balance of trade in merchandise in favour of India rose by **Rs.81.12** crores from Rs.22.78 crores to **Rs.103.90** crores. These figures do not take into account war purchases by His Majesty's and Allied Governments which are paid for in sterling. A part of the increase **in** the total value of exports is to be attributed to the rise in prices.

A feature of India's foreign trade during the period has been the increase in the trade between this country and the rest of the British Empire. Another feature has been the sharp rise in the exports of manufactured goods, particularly textiles.

The rupee-sterling exchange market was steady throughout the year. The sellers' quotation for telegraphic transfers for merchant business was raised from Exchange. lsh. 5-15/16d. on the 25th September to lsh. 5-31/32d. in anticipation of an improvement in the supply of sterling in the approaching export season. The buying rates for telegraphic transfers and three months D/A bills were also raised by 1/32d. to lsh. 6-1/32d. and lsh. 6¼d. respectively, and as a result of the change in the rupee-sterling exchange rate, the buying and selling rates for telegraphic transfers on New York were reduced by eight annas to Rs.329½ and Rs.332¼ respectively. Owing to the improvement in the balance of trade, net sterling purchases of the Bank from the market were higher than in the previous year and amounted to £81,604,025-11-7 as compared with £54,074,993-6-7 in 1940-41. Repayments made by the Secretary of State on account of recoverable war expenditure and purchases made on behalf of His Majesty's and Allied Governments, after deducting the sterling requirements of the Central Government and the Government of Burma, left a net credit in favour of India of £145,360,000 against £25,545,000 in the previous year.

The main developments in the system of exchange control Exchange Con- during the year under review were largely the trol. result of the growing tension in the Par Eastern political situation and the territorial changes following the outbreak of war with Japan. With the freezing of Japanese assets, the Japanese Banks were placed under the supervision of the Reserve Bank, and the drawings from and credits to the accounts of Japanese firms and companies were restricted to the settlement of outstanding contracts.

With the outbreak of war with Japan, the Japanese Empire was declared enemy territory by the Government of India. All

Japanese assets became vested in the Custodian of Enemy Property and the Reserve Bank ceased to administer Japanese accounts.

The system of import control also underwent certain changes during the year under review. The cessation of supplies from Continental Europe led to greater imports from the United States and other countries and owing to the increasing need for conserving foreign exchange and shipping space, the previous import restrictions were extended so as to cover all articles from all foreign countries with the exception of certain goods from Canada.

The scheme for the repatriation of India's sterling debt was continued with the Government of India's **Repatriation of Sterling Debt.** announcement on the 24th December 1941 that they had taken action to repatriate as far as possible the whole of their remaining sterling debt (other than railway debenture stock and annuities) of the aggregate amount of about £158 million, consisting of the 39 per cent. and 3 per cent. India Sterling Stocks and the 2½ per cent. Sterling Loan, the outstanding amount in respect of which was about £78 million, £70 million and 11 million respectively. The Secretary of State gave a year's notice for the redemption of the 3½ per cent. India Sterling Stock on January 5, 1943, and the British Treasury issued an Order on the 23rd December 1941 requiring all residents in the United Kingdom holding the 3 per cent. and 2½ per cent. loans to surrender them to the Treasury. The Government of India issued a corresponding Order under the **Defence** of India Rules acquiring all such stock held by residents in India at **prices** equivalent to the amounts fixed in the United Kingdom Order. The securities in question were to be delivered by February 9, 1942 and payments commenced on the 2nd March.

The stock surrendered under the British Order amounted to **£72·79** million and that under the Indian Order to **£4·27** million involving payments of **£64·79** million in England and **Rs.5·12 crores** in India. The bulk of the payment in sterling was **effected** by the transfer of sterling treasury bills from the Issue to the Banking Department, and rupee **finance** was provided by the Central Government by the creation of *ad hoc* treasury bills in the Issue

Department to the amount of **Rs.90 crores**. In addition to the above sterling payment of **£64.79** million, **£2.07** million was paid on account of portions of the residual **terminable** stock acquired during the course of the year and **£16.63** million on account of **3½** per cent. non-terminable stock purchased in the open market.

During the year under review, three banks were included in **S c h e d u l e d** the second schedule to the Reserve Bank Act. **Banks.** Of these, two were Chinese Government banks which had already been included in the second schedule to the India and Burma (Burma Monetary Arrangements) Order, 1937, but were included in the second schedule to the Reserve Bank of India Act and excluded from the Burma schedule on their opening offices in India during the year. The three Japanese banks which were in the second schedule to the Reserve Bank Act were excluded from that schedule after the outbreak of hostilities with Japan. The total number of banks in the second schedule to the Reserve Bank Act consequently remained unchanged at 59 whereas that in the Burma schedule declined from 5 to 3. A list of these banks is appended to this report.

Acting on their interpretation of the term 'value' occurring in section 42(6) of the Reserve Bank Act to **mean** the real or **exchange-**able value and not the book value of the paid-up capital and reserves, Government issued notices to certain scheduled banks who appeared no longer entitled to be retained in the schedule to allow the Reserve Bank to inspect their books for the purpose of verification. Before however, the programme of inspection could be completed, war developments and the consequent dislocation of prices made it temporarily difficult accurately to evaluate the banks' assets and necessitated its partial postponement.

Owing to the extension of war to Burma in December 1941, scheduled banks with branches in Burma found it increasingly difficult to submit the returns prescribed by section 42 of the Reserve Bank Act in respect of their business in that country. The Government of India, therefore, issued **an Ordinance** on the 9th February 1942 amending temporarily section 42, sub-sections (1) and (2), and

section 43 of the Act so as to omit all references to Burma. The effect of the Ordinance is that the returns of the scheduled banks since the 9th February 1942 refer to their position in India **only**.

The table given below compares the position of scheduled banks as on the 27th June 1941 and the 26th June 1942.

(In thousand rupees)			
	27-6-1941	26-6-1942	Difference
1. Demand Liabilities :			
In India	183,94,30	267,15,50	+ 83,21,20
In Burma	10,95,58	. . . . .	. . . . .
2. Time Liabilities :			
In India	103,34,99	97,30,58	- 6,04,41
In Burma	4,05,64	. . . . .	. . . . .
3. Cash in Hand :			
In India	11,38,07	14,51,76	+ 3,13,69
In Burma	65,03	. . . . .	. . . . .
4. Balances with Reserve Bank of India	29,65,83	60,92,78	+ 31,26,95
5. Advances :			
In India	122,15,30	94,30,20	- 27,85,10
In Burma	5,64,74	. . . . .	. . . . .
6. Bills Discounted :			
In India	5,34,96	1,46,98	- 3,87,98
In Burma	7,03	. . . . .	. . . . .

The total demand and time liabilities in India rose from **Rs.287.29** crores on the 27th June 1941 to **Rs.326.50** crores on the 5th December 1941. Thereafter, owing to the outbreak of war with Japan, banks were subjected to a certain amount of withdrawals and the total demand and time liabilities fell to **Rs.320.48** crores by the 6th March. With the gradual return of confidence deposits resumed their upward trend, the total demand and time liabilities standing at **Rs.364.46** crores on the 26th June 1942.

Average balances maintained by the scheduled banks with the Reserve Bank were higher at **Rs.41.98** crores in 1941-42 against **Rs.38.53** crores last year, the excess over the statutory minimum being **Rs.28.60** crores against **Rs.27.75** crores. The percentage of cash in hand and balances with the Reserve Bank to their total demand and time liabilities was 20.70 per cent. on the 26th June 1942 as compared with **13.79** per cent. at the corresponding time of the previous year. The advances and bills of the scheduled

banks during the year were generally on a lower level than in the previous twelve months while their investments in gilt-edged securities as revealed in such of their balance sheets as are available were higher, so that their position on the whole was more liquid than in the previous year. Some of the smaller scheduled banks, however, felt the strain of withdrawals as was evidenced by their defaults in maintaining the statutory deposits with the Reserve Bank. During the year 19 scheduled banks defaulted in maintaining their statutory deposits and paid penal interest aggregating Rs.4,709-6-2 of which Rs.2,483-15-10 was at the higher penal rate of 8 per cent. per annum.

Owing to the prevailing money conditions there was practically no demand for accommodation from the Reserve Bank until the outbreak of war in the Far East. During the latter half of the year, certain scheduled banks approached the Reserve Bank for accommodation partly to meet sudden withdrawals of deposits and partly to strengthen their cash position, and suitable credit limits were fixed. The total amount of loans granted to scheduled banks and provincial co-operative banks during the year under review amounted to Rs.99.9 lakhs.

The extension of branch-banking noted in previous reports continued during the first half of the year under review and there was a net increase of 50 offices during the period, from 1,404 on the 30th June 1941 to 1,454 on the 31st December 1941. Thereafter, in view of the extension of the war some of the scheduled banks thought it advisable to consolidate their position and closed down a number of branches. Burma offices were also closed and the total number of offices declined to 1,405 at the end of the year.

During the year under review the Reserve Bank continued to receive the returns submitted by non-scheduled banks to the Registrars of Companies and to keep in touch with them. The total number of non-scheduled banking companies registered and working in British India and submitting returns under section 277 (L) of the Indian Companies Act was 601 at the end of December 1941 as compared

**Non-Scheduled
Banks.**

with **604** a year before. Their total demand and time liabilities amounted to **Rs.19.54 crores** as compared with **Rs.16.74** crores at the corresponding period last year, and the ratio of cash to deposits also was higher at **8.4** per cent. as against **7.8** per cent.

During the year 20 non-scheduled banks were included in the approved list for the concession rates of remittances under Appendix III of the Reserve Bank's scheme of remittance facilities introduced in October 1940, bringing the total number of non-scheduled banks and indigenous bankers in the list to **57** and **S** respectively at the end of the year.

As stated in the last year's report, the publication of the **Statistical Tables relating to Banks in India.** 'Statistical Tables relating to Banks in India ' was taken over by the Reserve Bank from the **Government of India** in 1941 and the first issue covering the two years 1939 and 1946 was published in July 1941. The second issue also will be published shortly.

In the last year's report, it was stated that the Government of India had decided that the question of **under-**taking comprehensive banking legislation should be held over for the time being but that some interim measures involving the minimum of legislation should be considered to improve the administration of the law relating to banking, *i.e.* Part XA of the Indian Companies Act. A proposal was accordingly circulated by the Government of India during the year with the object of removing the **difficulties** of interpretation created by the present definition of banking companies given in section 277(F) of the Indian Companies Act, particularly those arising from the use of the words 'principal business' in the section. Under this proposal it is intended to amend the section by the insertion of an explanation **to the effect** that any company which uses as part of its name the word 'bank', 'banker' or 'banking' shall be deemed to be a banking company irrespective of whether the business of accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft **or** order is **its** principal business or not.

The various problems relating to rural credit continued to receive the careful attention of the Agricultural Credit Department of the Bank which is keeping itself in touch with the various matters pertaining to the co-operative movement, debt legislation, rural reconstruction and land mortgage banking. The Department continued to tender advice on problems referred to it by various agencies such as Provincial Governments, Registrars of Co-operative Societies and Co-operative Banks. A review of the co-operative movement in India in 1939-40 was published in December 1941, and it has been decided to make this review an annual feature. The Department has also taken over from the Director General of Commercial Intelligence and Statistics the publication of the Statistical Statements relating to the Co-operative Movement in India.

In order to extend additional remittance facilities to the co-operative movement, the new scheme of remittance facilities introduced by the Bank from the 1st October 1940 with the concurrence of the Central and Provincial Governments was modified during the year so as to place the provincial co-operative banks including the central banks affiliated to them more or less on the same footing as the scheduled banks. The modified scheme was brought into operation with effect from the 1st September 1941, and has so far been availed of by the provincial co-operative banks in Bombay, Madras, Sind and the Punjab and the Ajmer Central Co-operative Bank.

A scheme for extending financial accommodation to the co-operative central banks through the provincial co-operative banks for the purpose of financing seasonal agricultural operations or the marketing of crops at special rates was prepared during the year and was issued on the 2nd January 1942. Under this scheme it is proposed to grant a rebate up to 1 per cent. to provincial co-operative banks rediscounting agricultural bills with the Reserve Bank provided the benefit of the rebate is passed on to the agriculturists. The details of this scheme are now being worked out.

During the year two provincial co-operative banks approached the Reserve Bank for financial accommodation against Government securities and appropriate credit limits were sanctioned.

The balance sheet of the Bank as on the 30th June 1942 together with the Profit and Loss Account is reproduced on pages 24 to 28 of this report. It will be seen that the form of the balance sheet differs slightly from that of the previous year inasmuch as it omits all references to Burma notes. In view of the occupation of Burma by the enemy, the Government of India decided to relieve the Bank of its liabilities for the Burma note issue and to take over corresponding assets on this account from the Bank. An Ordinance was accordingly issued on the 6th June 1942 prohibiting the Bank from making payment for Burma notes except with the authorization of the Government of India. The effect of the Ordinance is that whereas the Bank was till then converting Burma notes in the capacity of a note-issuing authority both for Burma and India, the Bank is now doing so as agent of the Government of India. No reference to Burma notes is therefore made in the balance sheet and the weekly returns which are identical in form.

The total of the balance sheet of the Issue Department rose during the year from Rs.291.34 crores to Rs.461.56 crores owing to the increase in the note-issue as a result of war conditions. On the liabilities side, the total note circulation has risen from Rs.260.01 crores (Rs.278.27 crores including Burma notes) to Rs.447.23 crores. On the assets side, 'Gold Coin and Bullion' has remained unchanged at Rs.44.41 crores. 'Sterling Securities' have risen from Rs.118.80 crores to Rs.266.85 crores notwithstanding the transfer of Rs.80 crores to the Banking Department for the purpose of making sterling payments to holders of sterling loans repatriated during the year under review, which totalled £83.48 million, i.e., Rs.111.31 crores during the year. With gold, they now provide a cover of 67.44 per cent against the note issue liabilities.

'Rupee Coin' which includes the one-rupee notes of the Government of India has declined from Rs.36.81 crores to Rs.28.00 crores mainly owing to greater demand as a result of increased

financial activity. Early in April, the Bank took over from the Government Rs.5 crores worth of rupee coin in terms of sub-section (2) of section 36 of the Reserve Bank Act as amended on the 24th July 1940.

The value of rupee securities has risen from Rs.91.32 crores to Rs.122.29 crores. The rupee counterparts which the Bank had taken over from Government in March 1941 in connection with the repatriation of the terminable sterling debt were subsequently returned to Government in exchange for treasury bills which were also gradually cancelled so that by the 27th February 1942 rupee securities had declined to Rs.41.50 crores. As already mentioned above, the rupee finance required for repatriating the non-terminable loans was provided by Government by the creation of *ad hoc* treasury bills and rupee securities therefore rose to Rs.149.19 crores on the 22nd May. Their value declined, however, again to Rs.122.29 crores in the week ended the 12th June when the assets held as cover for the Burma note issue were transferred to Government.

The total of the balance sheet of the Banking Department has risen from Rs.67.31 crores to Rs.104.36 crores mainly as a result of the large increase in the deposits of the scheduled banks with the Bank.

On the liabilities side, the total of Government deposits has declined slightly from Rs.22.45 crores to Rs.22.01 crores. Owing to the uneven incidence of Government's war expenditure, these deposits showed large variations during the year, the highest and the lowest being Rs.31.61 crores and Rs.10.08 crores respectively.

The deposits of banks have shown a sharp increase of Rs.34.60 crores to Rs.64.63 crores. Owing to the prevalence of easy money conditions during the year and the desire of the banks for greater liquidity, these deposits were greatly in excess of the statutory minimum required by the Reserve Bank Act.

'Balances held abroad' have increased from Rs.47.33 crores to Rs.80.39 crores. Large amounts of these balances were from time to time transferred to the Issue Department as cover for the note issue.

The low level of 'Bills Purchased and Discounted' and 'Other Loans and Advances' during the year reflects the prevalence of easy money conditions. 'Investments' have risen from Rs.5.28 crores to Rs.8.24 crores, while 'Other Assets' are slightly lower at Rs.1.23 crores as compared with Rs.1.37 crores.

India's increased favourable balance of trade and the disbursement of funds in India on a considerable scale on account of war purchases on behalf of His Majesty's and Allied Governments have created a problem the main outlines of which will have become clear from the statistical and factual data given in the Currency and Finance Report for the year ended the 31st March 1942 and in the foregoing portions of the present Report. Currency expansion and the accumulation of sterling assets are the twin aspects of the problem which are of direct concern to the Reserve Bank. In regard to the former it is the duty of the Reserve Bank as the currency authority of the country to make supplies of additional currency available as the need for them appears from time to time. The remedy for any inflationary tendency that the expansion of currency might have must take into consideration the causes which are producing the increased demand for currency, and these in present circumstances are not amenable to any action which the Reserve Bank can itself take. It may be stated, however, on a review of the facts and figures bearing on inflation, e.g., the course of prices, the extent of currency expansion, the increase in bank deposits and the volume of bank clearings, that although most of the recognized elements of inflation are present, there is no evidence that inflation is present in the country in any serious form. That Government realizes the necessity of taking steps to keep the situation under control is clear from the various price control measures they have instituted, their taxation and borrowing programmes, and the efforts they are making in collaboration with Provincial Governments for the increase of food production. This last is of particular importance in view of the rapid growth in the effective consumption demand of the population resulting from the increased economic activity created by the war and the relative inelasticity of the means of producing food crops.

Possibility of
Inflation.

The related problem of accumulating sterling balances is also of intimate concern to the Reserve Bank and is receiving the continuous attention of the Board. Sterling Assets. The balances in sterling in the Banking Department at the end of the year are not appreciably in excess of the amount required for the repayment of the undated $3\frac{1}{2}\%$ Sterling Stock due for redemption next January. Moreover the remaining sterling liabilities of Government, such as railway debenture stocks, present a further field for repatriation which it should be possible to explore towards the utilization of any surplus sterling that may result from the current year's operations.

By Order of the
Central Board of Directors,
J. B. TAYLOR,
Governm.

RESERVE BANK OF INDIA
Balance Sheet as at 30th June 1942
ISSUE DEPARTMENT

LIABILITIES			ASSETS		
	Rs. a. p.	Rs. a. p.		Rs. a. p.	Rs. a. p.
Notes held in the Banking Dept.	14,33,04,705 0 0		A. Gold Coin and Bullion :-		
Notes in circulation	447,22,63,765 0 0		(a) Held in India	44,41,43,309 15 11	
Total notes issued		461,55,68,470 0 0	(b) Held outside India	.....
			Sterling Securities	266,85,10,912 14 10	
			Total of A		311,26,54,222 14 9
			B . Rupee Coin		28,00,14,971 15 3
			Government of India Rupee		
			Securities		122,28,99,275 2 0
			Internal Bills of Exchange		
			and other Commercial		
			Paper		Nil.
TOTAL LIABILITIES . . . .	....	461,55,68,470 0 0	TOTAL ASSETS . . . . .	....	461,55,68,470 0 0

Ratio of Total of A to Liabilities : 67·438 per cent.

BANKING DEPARTMENT

LIABILITIES				ASSETS			
	Rs.	a.	p.		Rs.	a.	p.
Capital paid-up	5,00,00,000	0	0	Notes	14,33,04,705	0	0
Reserve Fund	5,00,00,000	0	0	Rupee Coin	6,97,884	0	0
Deposits :-				Subsidiary Coin	4,55,993	2	2
(a) Government—				Bills Purchased and Discounted :-			
(1) Central Government of India	14,11,05,638	11	6	(a) Internal	Nil.		
(2) Government of Burma	33,91,576	15	5	(b) External	Nil.		
(3) Other Government Accounts	7,55,93,808	6	8	(c) Government Treasury Bills	6,23,577	0	1 1
(b) Banks	64,63,25,921	14	3	Balances held abroad*	80,38,90,789	3	6
(c) others	2,01,02,278	8	3	Loans and Advances to Governments	Nil.		
Bills Payable	3,33,23,126	9		Other Loans and Advances	Nil.		
Other Liabilities	2,38,03,445	10	6	Investments	8,23,88,561	11	7
TOTAL LIABILITIES	104,36,45,796	12	3	Other Assets**	1,22,84,286	10	1
				TOTAL ASSETS	104,36,45,796	12	3

(25)

* Includes Cash and Short-term Securities.

** Included in the above is the sum of **Rs.6,80,070-0-0** being the book value of Deed Stock now in enemy occupied territory.

C. R. TREVOR,
Chief *Accountant*.

J. B. TAYLOR,
Governor.

C. D. DESHMUKH,
Deputy Governor.

Dated the 16th July, 1942.

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 30th June, 1942.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Office⁸ 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 information from the Central **Board** such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is **a** full and fair Balance Sheet containing the particulars prescribed by, and in which the assets have been valued in **accordance** with, the Reserve **Bank of India** Act, 1934, and the Regulations framed thereunder and is properly drawn up so **as** to exhibit **8** 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 **8s** shown by the **Books** of the **Bank**. Owing to war conditions we have accepted telegraphic returns from London.

S. B. BILLIMORIA & CO.,
P. K. GHOSH,
SASTRI & SHAH,
Auditors.

Dated the 16th July, 1942.

RESERVE BANK OF INDIA
Profit and Loss Account for the year ended 30th June 1942

INCOME	Rs.	a.	p.
Interest, Discount, Exchange, Commission, etc.	4,56,44,511	1	0
	4,56,44,511	1	0
EXPENDITURE			
Establishment	39,08,266	2	5
Directors' and Local Board Members' fees and expenses	85,833	8	0
Auditors' fees	12,999	0	0
Rent, Taxes, Insurance, Lighting, etc.	4,56,461	12	7
Law charges	1,467	0	3
Postage and Telegraph charges	1,15,581	0	11
Remittance of Treasure	19,50,516	10	1
Stationery, etc.	1,55,997	15	3
Security Printing (Cheque, Note Forms, etc.)	8,88,215	12	5
Depreciation and Repairs to Bank property	4,25,378	1	2
Agency charges	29,67,134	1	11
Contribution to staff and superannuation funds	76,309	0	0
Miscellaneous expenses	4,48,677	14	0
Net available balance	3,41,53,681	2	0
TOTAL	4,56,44,511	1	0

Profit and Loss Account for the year ended 30th June 1942—(contd.)

	Rs.	a.	p.
Amount set aside for payment of dividend at the rate of $3\frac{1}{2}$ per cent. per annum	17,50,00	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	3,24,03,68	2	0
Balance carried forward	Nil.		
TOTAL	3,41,53,68	2	0

(28)

RESERVE FUND ACCOUNT

By balance on 30th June, 1942	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.

Dated the 16th July, 1942.

C. D. DESHMUKH,
Deputy Governor.

APPENDIX

(a) Scheduled Banks.

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

41. Nath Bank.
42. National Bank of India.
43. National City Bank of New York.
44. Nedungadi Bank.
45. 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.
51. Palai Central Bank.
52. Pioneer Bank.
53. Punjab and Sind Bank.
54. Punjab Co-operative Bank.
55. Punjab National Bank.
56. Simla Banking & Industrial Co.
57. Thos. Cook & Son (Bankers).
58. Union Bank of India.
59. United Industrial Bank.

(b) Burma Scheduled Banks.

1. Bank of Upper Burma.
2. Oversea Chinese Banking Corporation.
3. U Rai Gyaw Thoo & Co.