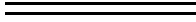


RESERVE BANK OF INDIA



REPORT
OF THE
CENTRAL BOARD OF DIRECTORS
FOR THE YEAR ENDED THE 30th JUNE 1944

To be presented to the Shareholders at the Tenth Annual General Meeting to be held on Monday, the 7th August 1944, at the Reserve Bank of India, Mint Road, Bombay, at 3-30 p.m. (Standard Time),



1944.

510/RBI

606

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

For the year 1st July 1943—30th June 1944.

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 tenth accounting period beginning **on the** 1st July 1943 and ending on the 30th June 1944.

ANNUAL ACCOUNTS.

After payment of expenses of administration and provision for -sundry liabilities and contingencies the net profit amounts to Rs. **10,26,57,810 7 11**

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 $3\frac{1}{2}$ 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. Under the Reserve Bank of India (Limitation of Dividend) Ordinance of 1943 (reprinted as Appendix A to the last year's report), which continues to be in force, the rate at which dividend on the share capital of the Reserve Bank may be paid by the Bank to shareholders is limited to a maximum of 4 per cent. The additional dividend payable is therefore limited to $\frac{1}{2}$ per cent. per annum equivalent to Rs. **2,50,000 0 0**

leaving a surplus of Rs. **10,06,57,810 7 11** for payment to the Central Government in accordance with the said section as modified by the Ordinance.

The net profit is higher than in the previous year by Rs. 2.57 **crores** owing to a further 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 Calcutta and Messrs. Sastri and Shah of Madras who were elected as auditors of the Bank by the shareholders at their meeting held at Calcutta on the 9th August 1943 in accordance ~~with~~ section 50 (1) of the Reserve **Bank** of India Act, 1934. The present auditors, being eligible, offer themselves for reappointment.

On the recommendation of the Central Board in accordance with **Constitution** of sub-section 1(a) of section 8 of the Act, the ^{the} Central Board were pleased to appoint, in the vacancy caused by the death of Sir James Taylor, K.C.I.E., Mr. (now Sir) **Chintaman** D. Deshmukh; C.I.E., the

Deputy Governor to be Governor of the Bank by a notification dated the 11th August 1943. In **accordance** with the same section, Mr. **Wajahat** Hussain, C.I.E. and Mr. C. R. Trevor, the Chief Accountant of the Bank, were appointed Deputy Governors of the Bank, and assumed charge of their **office** on the 16th August 1943. The shareholders will have noted with pleasure that in the New Year Honours List of 1944, the title of knighthood was conferred upon the Governor, and Sir Chintaman was felicitated by the Directors on this well merited distinction.

Mr. A. C. Turner, C.I.E., M.B.E., I.C.S., continued, for the greater part of the year, as the Director nominated by the Central Government in terms of section 8 (1) (d). The Hon'ble Sir Cyril E. Jones, **K.C.I.E.**, C.S.I., I.C.S., was nominated in his place from the 24th August 1943 to the **23rd** October 1943.

On the 28th **February** 1944, Dr. Narendra Nath Law, an elected Director representing the Eastern (Calcutta) Area Local Board, resigned his office of Director of the Central Board. The resulting vacancy will be **filled** by election by the elected members of that Local Board after the vacancy of an elected member of the Board, which had been **filled last** year by nomination under section 12 (3), is **filled** by election to be held as nearly as may be in accordance with the proviso to section 12 (4) of the Act.

As the Directors representing the shareholders on the Northern (Delhi) Area Local Board were due to retire on the 31st of December 1943, under sub-section (4) of section 8 of the Act, an election of the members of that Board was held in November 1943. Subsequently, at a meeting of the elected members of the Local Board held in Delhi on the 23rd December 1943, Sir Shri **Ram** and Mr. Satya Paul **Virmani** were elected under section 9 (7) of the Act Directors of the Central Board to represent the shareholders of the Northern (Delhi) Area Register.

Eight meetings of the Central Board were held during the year under report, three at Bombay, three at Delhi and one each at Calcutta and Cawnpore. The Committee of the Central Board met 46 times in Bombay, 4 times in Calcutta, twice in Delhi and once in Lahore.

Khan Bahadur Malik **Noor** Mohammad, a nominated member of the Northern (Delhi) Area Local Board, resigned on the 11th July 1943, and in view of the impending election in that area in November 1943, the question of tilling the vacancy was deferred. The election was held in November 1943 and the existing elected members were returned unopposed. Rai **Bahadur** Sardar Basakha Singh and Mr. **W.** Roberson Taylor were nominated by the Central Board to be members of that Local Board, and all the members assumed office on the 23rd December 1943. The third vacancy of a nominated member on the Local Board was **filled** later on the 5th February 1944 by the nomination of **Sheikh** Mohammed Bashir under section 9 (1) (b) of the Act.

In the vacancy caused by the resignation, in May 1943, of Sir **Chunilal B. Mehta**, an elected member of the Western (**Bombay**) Area Local **Board**, the Central **Board**, following the recommendation of the Local Board, nominated, in August 1943, Mr. Devidas Madhowji **Thackersey** in terms of section 12 (3) of the Act. In November 1943, Mr. Manibhai **Vasanji** Desai, a nominated member of the same Local **Board**, resigned and in April 1944 the Central Board nominated Mr. **Manilal H.** Mehta in his place.

The following table shows the distribution of the Bank's Distribution of shares as on the 30th June 1943 and the 30th June 1944 :
Shares between the various Areas.

	Distribution of shares as on the	
	30th June 1943	30th June 1944
Bombay	2,25,022	2,31,133
Calcutta	1,19,243	1,19,247
Delhi	87,163	86,137
Madras	68,096	55,273
Rangoon	10,476	9,210
Total	5,00,000	5,00,000

	Number of shareholders as on the	
	30th June 1943	30th June 1944
Bombay	18,012	18,073
Calcutta	11,299	10,991
Delhi	11,901	11,514
Madras	7,471	7,111
Rangoon	719	603
Total	49,402	48,292

	30th June 1943	30th June 1944
Average number of shares held by each shareholder	10.1	10.4

The total number of shareholders declined further during the year from 49,402 to 43,292. The number of shares on the register of the Calcutta area remained practically unchanged while those on that of the Bombay area continued to increase.

It was announced on the 22nd November 1943, that Bank Notes bearing the signature of Mr. (now Sir) Chintaman D. Notes and Coin. Deshmukh would be issued shortly ; and the notes actually issued during the year were of the denominations of Rs. 2, Rs. 5, Rs. 10 and Rs. 100. No alterations were made in respect of the pattern, size or colour of the notes issued during the accounting year.

As a measure of additional **protection** against counterfeiting, the Central Government directed that the design of the quaternary four **anna** coin **struck** at the Mints with effect from August 1943, shall have the **same** security edge as the new quaternary rupee and half-rupee coins.

The Bank's Report on Currency and Finance for the **financial** year ended the **31st** March 1944 will be published at the end of July 1944. That Report deals with the economic and financial conditions in the country and with Government **finances** in greater detail than this Annual Report which is intended primarily to review the Bank's working during the accounting year.

Following a further intensification of the country's war effort, the economic activity in India including production, employment, earnings and trade continued to increase. The position of most Indian industries continued to be favourable on the whole during the year and is reflected in general in the prices of industrial securities. An enquiry into wages in the Bombay textile industry revealed a steep rise in war-time incomes, the average earnings of adults at the end of the fourth year of the war showing an increase of more than **100** per cent. The sustained expansion in the internal business activity of the country is indicated by increases in cheque clearings, earnings of railways and wagons loaded. Cheque clearings rose by Rs. 1,142 crores to Rs. 4,054 crores, railway earnings by **16·7** per cent. to Rs. **171·89** crores and wagons loaded by **0·7** per cent. to **6·12** million during the 11 months ended May 1944. The values of both imports and exports of merchandise on private account were above the level of the previous year.

An index to the sustained war effort is provided by the growing Governmental disbursements, both on India's own and on Allied account, which amounted to Rs. 693 crores during the **financial** year 1943-44, the total outlay since the outbreak of the war being **Rs. 1,765** crores. With the **progressive** use of India as the main operational base against Japan, larger demands were made on the country's resources of man-power and materials. It became clear about the close of last year that the strain on the country's domestic economy resulting from the progressive diversion from civilian to war consumption required early relief if serious dislocation was to be averted. The need for stabilisation became more urgent with the added liabilities imposed by the establishment of the South East Asia Command in July 1943.

The shortages of foodstuffs in the country which were developing under war-time conditions, particularly after the Japanese **occupa-**tion of Burma, became acute early in the year under review, and **much** distress equivalent to famine conditions was caused in the deficit areas

of Bengal, Travancore, Cochin and **Malabar**. The conditions in Bengal steadily deteriorated till about December when the measures taken by the Central Government including the feeding of greater Calcutta coupled with the prompt movement of supplies with the assistance of the Army brought about a measure of relief. The steps taken by Government to implement the main recommendations of the **Food-grains Policy Committee** including the statutory control of food prices, rationing in surplus as well as deficit areas, procurement through official **agencies** and the elimination of competitive buying and planned movement of surpluses are also having an effect in relieving the food situation in the country as a whole. Further relief measures included increased imports of foodgrains and prohibition of their export. It is **recognised** that the food situation is not yet secure, that India is a deficit country as regards food production, and that continued imports of foodstuffs, as recommended by the Foodgrains Policy Committee, apart from other relief measures adopted by Government, are essential for a solution of this most important of consumer problems.

The main war-time problem of the country has been to reabsorb on an adequate scale the large outpouring of Governmental money including disbursements on account of the Allies. During the last 15 months the vigorous prosecution of the Government's borrowing **programme** assisted by various measures of physical control has resulted in arresting the upward trend of prices and restoring confidence to a great extent. These measures were further supplemented by attempts to eliminate shortages in consumer goods. Action taken in this direction covered a wide range of essential civil supplies such as cotton textiles, foot-wear, **woollen** clothing, medicines, *etc.*, so as to make available larger supplies of these goods at reasonable prices. Following the institution of the Cotton Cloth **and** Yarn (Control) Order of June 1943, cloth prices have been brought down on an average with the co-operation of the industry by about 60 per cent. and larger supplies **have** been made available to the civil consumer. In regard to articles of common use not covered by the various *ad hoc* control orders, a comprehensive Hoarding and Profiteering Prevention Ordinance **was** issued in October 1943. Further, a representative Central Consumers' Council was constituted in June 1944 to advise Government, among other things, on the working of price control and the distribution and more economical use of commodities in short supply. As a result of these and other measures referred to in the last Report, the rising trend in wholesale prices noticed since August 1942 was arrested early in the year, though much still remains to be done to make the controls effective. The stock, share, bullion and commodity markets had on the whole a healthier outlook, the direct measures of monetary control such as restrictions on capital issues and on forward trading having a **favourable** effect.

Notwithstanding their pre-occupation with the war the **Government** took **definite** action in the sphere of post-war planning. According to the first Report on the Progress of Reconstruction Planning issued in

March 1944, the central machinery for planning includes the Reconstruction Committee of the Viceroy's Executive Council, the General Policy Committee, seven Policy Committees and the Consultative Committee of Economists. The Report also refers to the progress already made in regard to the collection of material and the measures taken to promote industrial research and to form estimates of the post-war requirements of industry for capital goods. With a view to co-ordinating on an all-India basis the various development plans, both Central and Provincial, the National Planning and Post-War Reconstruction Department has been created and is expected to function from the 1st August 1944.

Following an all-round upward trend in the commodity price level since August 1942 and more particularly during the latter half of the last accounting year, prices reached their war-time peak about the end of June 1943. The further increase in the price level **was, however,** arrested early in the accounting year under review and the trend during the greater part of the year indicated a tendency towards a stabilisation at a lower level of prices operating under controls. In addition to the measures adopted for the withdrawal of surplus purchasing power through increased taxation and borrowing, the various steps taken by the authorities, both Central and Provincial, for stabilisation included (1) fixation of ceiling prices, both wholesale and retail, in regard to an increasing range of consumer goods and regulation of the distribution of the most essential among them, and (2) imposition of restrictions on futures trading in certain commodities like cotton, oil seeds, **copra**, etc., and on speculative transactions in the share and bullion markets. As a result of these measures the various price indices showed a tendency to decline. The Calcutta index **number** of wholesale prices (July 1914 = 100) after reaching its peak level of 349 in September 1943 steadily declined and stood at 290 in May 1944 as against 319 in June 1943. According to the Economic Adviser's Index Numbers of Wholesale Prices (week ended 19th August 1939 = 100), primary commodities, with the exception of raw materials, showed a similar tendency. For example, food and tobacco which had registered the most pronounced increase earlier having risen to the peak of 303 in June 1943 declined to 294 in the next month and after irregular fluctuations during the next four months showed a downward trend though it rose during the last month of the year and stood at 300 at the close. A more pronounced decline was in evidence in respect of other agricultural commodities comprising, among others, raw cotton and raw jute, the index number declining from the peak of 253 in May 1943 to 198 in December and after varying within a narrow range, closing at 206. In contrast to the upward trend during the previous year, raw cotton **prices** showed almost a **continuous decline and dropped from** 261 in June 1943 to 187 in June 1944 ; raw jute also declined during the year from 241 to 216. In order to prevent a decline in the prices of raw jute and raw cotton to levels unremunerative for the cultivator, various measures were adopted including reduction in acreage, fixation of

minimum prices and an undertaking by Government to purchase these commodities if prices dropped below certain levels. Under the group raw materials, the earlier upward trend was maintained and the index number rose from **178** in June 1943 to **189** in December and **204** in June 1944 mainly owing to **sustained** wartime demand and consequent shortages in some **of the** articles especially coal and in transport facilities. Among **manufactures**, cotton textiles showed a decline as against increases in other articles with the result that the group index number **after** an initial fall remained steady round about 251 up to March 1944, **but** it rose to 261 in the next month and closed at 259. Chief articles of export fluctuated within narrow limits and after declining to 233 in March 1944 as against 244 in June 1943 closed higher at 246.

The improvement in the freight situation during the year assisted in arresting the declining trend in India's foreign **Balance of Trade**. As the recorded figures show, the total value of the sea-borne trade stood higher at Rs.251 **·91** crores during the nine months ended March 1944 compared with Rs.232.36 crores during the corresponding **period** of the previous accounting year. Both imports and exports, **particularly** the latter, shared in the improvement and the balance of trade in merchandise in favour of India stood higher at **Rs.66·13** crores as against Rs.63.25 crores. Imports rose by Rs.8.34 crores to Rs.92.89 crores and exports by **Rs.11·22** crores to **Rs.159·02** crores. War-time values of India's foreign trade reflect to a very large extent the inflated level of prices both in regard to exports and imports. The comparatively low level of imports indicates shortages in the supplying countries, shipping difficulties and the operation of various import controls. The main trends based on the **first** nine months' figures, however, reveal an **all-round** increase in imports particularly under raw materials (**12·4** per cent.) and food-stuffs (**13·7** per cent.). As regards exports, an outstanding feature is the reversal in the war-time trend in respect of raw materials which show an increase of **29·8** per cent. from **Rs.31·09** crores to **Rs.40·34** crores. As against these, exports of manufactured articles showed only a small increase of about 3 per cent. With the re-opening of the sea routes, there was an improvement in the volume of trade with distant countries like the United States of America, and trade with the United Kingdom was well maintained. Noticeable increases were recorded in the **case** of imports from the Middle East countries and the U.S.A.

The rupee sterling exchange market was featureless and the sellers' quotation for telegraphic transfers for merchant **Exchange**. business remained unaltered at lsh. **5-31/32d.** The buying rates for telegraphic transfers and three months' **D/A** bills also remained unchanged at lsh. **6-1/32d.** and lsh. **6-9/32d.** respectively. The net **purchases** of sterling by the Bank, during the year, amounted to **£101,493,921-4-10** as compared with **£97,739,341-8-0** in the preceding year. 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 **£162,685,000** at the end of the year as against **£235,975,000** at the end of the previous year.

Remittances of foreign exchange continued to be restricted. The reduction in the U.S. dollar requirements of the sterling area as a result of large supplies of goods by the United States under lend-lease procedure made the U.S. dollar position easier and rendered possible a certain **relaxation** of the restrictions on remittances of U.S. dollars. American firms were allowed to remit their profits in full and amounts blocked on account of infringements of the Import Trade Control Regulations were released. The general policy was to allow remittances, other than those involving a transfer of capital, which, if refused, would merely result in the creation of a deferred U.S. dollar liability. Restrictions on remittances in certain other currencies were also relaxed to a limited extent. In August 1943, the Trading with the Enemy restrictions were lifted from French North and West **Africa** and remittances to these territories were permitted. In January 1944, a Financial Agreement was entered into between the British Government and the French Committee of National Liberation, under which the whole French Overseas Empire with the exception of parts under enemy occupation was **recognised** as a single financial unit. The parts of the French Empire which formed part of the sterling area were now excluded and the franc rate for all French territories was fixed at 200 to the **£1**. Remittances to the French Empire were confined to transfers through special sterling accounts known as French Overseas accounts, and exports to the French Empire were made subject to the export control regulations. Restrictions on travel to places outside the sterling area involving disbursements of foreign exchange continued, and only British subjects who were travelling on official business or for business purposes approved by the Government of India were given facilities to purchase foreign exchange. To prevent **unauthorised** travelling, the Government of India on the 17th July 1943 issued a notification prohibiting any person from proceeding **outside** India without a written permit issued by the Reserve Bank of India ; but the restriction did not apply to persons proceeding to countries adjoining India or to Iraq, Arabia, British East Africa and the United Kingdom.

The downward trend in the bullion market witnessed about the close of last year continued during the first half of the year under review. On the 17th July 1943, Government took powers under Rule 94B of the **Defence** of India Rules to prohibit advances against commodities including bullion, although they did not find it necessary to issue any orders restricting bullion loans. The delivery period in the bullion market, which had been reduced under Rule **90C** to 12 days in May 1943, was further

reduced to 4 working days on the 5th August and to 2 working days on the 24th September. In January 1944, however, the period of delivery was extended to seven days in order to facilitate cash deliveries and to bring dealings in bullion in line with those permitted on the Stock Exchange. The Indian bullion market, though relatively free, continued to be isolated from the markets abroad as a result of war-time restrictions on the import and export of bullion.

The decline in the price of gold continued till the middle of September, the rate touching the lowest level of the year at **Rs. 65-4-0** on the 19th July, in view of the possibility of the introduction of a ban on advances against bullion, following the issue of the **Defence** of India Rule **94B**, referred to above. Thereafter, the quotation rose steadily from Rs. 70-6-0 on the 11th September to Rs. 86-7-0 on the 20th October. Continued official sales of gold which commenced earlier on the 16th August had, however, a restraining effect and prices declined to Rs. 76-6-0 by the end of November and further to **Rs. 71-2-0** by the end of December. The rate remained stabilised round about this level for nearly three months till about the last week of March, **when following** war developments on India's eastern frontier prices rose sharply and large amounts were taken up by the market from the Bank. With a view to allowing the market to find its own level the Bank instituted on the 29th March, the method of sales by tender and on the same day the sale of small bars of one tola and five tolas, which was started in upcountry centres about the middle of February 1944, was also commenced in Bombay. These measures had the desired effect on prices which eased to Rs. 71-7-0 by the 4th April 1944. The sale of **small** bars over the counter was discontinued from the 26th April. An increased upcountry demand took the price up to Rs. 76-12-0 on the 24th April, and ready gold continued to be relatively steady till the sagging trend in silver affected the quotations about the close of the year. The closing price for the ready on the 30th June was lower at **Rs. 73-12-0** as against Rs. 82-11-0 at the end of the previous year.

Prices in the silver market continued to be marked down as in the case of gold and dropped to Rs. 101-8-0 on the 20th July, being the lowest for the year. As a result of an improvement in the **offtake** the quotation gradually recovered and advanced to Rs. 113-12-0 by the end of August and to Rs. 129-2-0 by the 13th October. With the price of gold more or less stabilised, the silver market remained subdued during the succeeding two months, the ready price declining to Rs. 113-2-0 on the 27th December. The upward trend which set in in January 1944 was maintained till about the close of the year. The ready price rose to Rs. 141-8-0 on the 29th March and, after a reaction as in the case of gold, advanced further to Rs. 143-4-0 on the 24th April, the highest on record. By the 13th June 1944, the quotation had, however, declined to Rs. 133-9-0. On reports that the United States lend-lease silver to the extent of 100 million ounces will be made available to India shortly for coinage and, if necessary, for sales to the public to assist in stabilising the price

level, prices declined precipitately on the 15th of June, by Rs. 7 to **Rs.** 125-12-0 in the settlement **rate** and by **Rs.** 4-13-0 to Rs. 128-12-0 in the spot rate. This was, however, followed by a recovery towards the close of the year as a result of bear covering coupled with a shortage of stock. The **ready** quotation on the 30th June stood at **Rs.** 131-8-0 as against Rs. 123-0-0 at the close of the previous year.

The Central Government loans were designed to appeal to every type of investor, and a number of new loans, in addition to rupee counterparts of $3\frac{1}{2}$ per cent. **Government Loans.** undated paper and special issues of some of the existing loans, were floated during the year under review. The Post Office Ten-Year **Defence** Savings Certificates were replaced from the 1st October 1943 by the more attractive **Twelve-Year** National Savings Certificates, particularly to appeal to the small investor, and a country-wide save and lend drive was launched.

A further issue of the 3 per cent. Loan 1963-65 for Rs. 15 crores was made on the 3rd July 1943. **From** the same date the Fourth Defence Loan, *viz.*, the 3 per cent. Loan 1953-55 was issued. This loan was eventually closed on the 31st March 1944. Early in August, the Government announced that to assist in the funding of the liabilities connected with the acquisition of the $2\frac{1}{2}$ per cent. and 3 per cent. undated sterling stocks, rupee counterparts of the $3\frac{1}{2}$ per cent. undated paper would be created up to the aggregate value of these two loans and would be sold through the **Reserve** Bank. In October, the Government floated the 3 per cent. Funding **Loan** 1966-68 for Rs. 25 crores, and in January 1944 they created a special issue of Rs. 50 crores of this loan. Later in the year, the 3 per cent. Victory Loan repayable at par on the 1st September 1957 was issued from the 1st April. In June, the Government announced the creation of a special issue of Rs. 50 crores of the existing $2\frac{3}{4}$ per cent. Loan 1948-52. In addition, Five-Year Interest-Free Prize Bonds in denominations of Rs. 10 and Rs. 100, repayable on or after the 15th January 1949, were made available with effect from the 15th January 1944. The Bond-holders will receive half-yearly prizes, the total cost of which to Government will be equivalent to a rate of interest of about 2 per cent. per annum. The total amount raised during the accounting year through all new issues and sales of loans on tap came to **Rs. 282.80** crores.

It was noticed in the last year's report that four Provincial Governments resorted to borrowing in September 1942. The same four Provincial Governments, *viz.*, Bombay, **Madras**, the Punjab and the C. P. & Berar issued simultaneously on the 14th September 1943, 3 per cent. medium-dated loans of the aggregate value of Rs. $7\frac{3}{4}$ crores, repayable on the 14th September 1956. The object of the loans as that of the loans floated last year was to make advance repayment of a part of the loans carrying a higher rate of interest, owed the Central Government from a date prior to the inauguration of Provincial Autonomy on the 1st April 1937.

The year under review saw the final stage of the programme of repatriation of India's sterling debt. Of the **out-** standing railway debenture stocks, all except three were acquired by the end of last year ; the remaining three $3\frac{1}{2}$ per cent. debenture stocks, viz., those of the East Indian Railway, the Great Indian Peninsula Railway and the Bombay, Baroda and Central India Railway, for which notice of redemption was given on the 12th March 1943, were redeemed on the 4th **February** 1944, the amount paid being **£8·9** million. Besides, during the year ended the 30th June 1944, the repatriation of stray parcels of Government of India sterling stocks, both dated and undated, and of the railway debentures bought and cancelled, amounted to 1986,320 the rupee finance being provided from Government's balances. The total sterling liabilities redeemed during the accounting year including open market purchases of **£479,350** amounted to **£10·6** million. The aggregate sterling liabilities redeemed since repatriation **first** began in 1937 up to the end of June 1944 amounted to **£320·43** million. As a further measure of repatriation, the Government of India also acquired, at a cost of approximately **£6·35** million, the Madras and Southern Mahratta Railway and the South Indian Railway on the 1st April 1944.

The steadiness in the gilt-edged noticed during the last accounting year was succeeded by a definitely upward trend during the year under review. Though there were occasional reactions, the quotations of most of the loans had registered substantial gains by the end of June 1944.

The announcement of a further issue of the 3 per cent. Loan 1963-65 on the 3rd July 1943 and of the Fourth **Defence** Loan, viz., the 3 per cent. Loan 1953-55 with effect from the same date had a **favourable** effect on market sentiment. In view of increasing demand, Government raised by stages the selling price of the $3\frac{1}{2}$ per cent. rupee counterparts of undated paper from Rs. 95-0-0 on the 5th July 1943 to Rs. 97-8-0 on the 29th September. During the same period the 3 per cent. undated Rupee Paper advanced from **Rs.** 81-8-0 to Rs. 84-4-0, while most of the terminable loans also advanced in sympathy. The market continued **firm** until about the middle of October when, following a sporadic air-raid over Madras, a reaction set in, the $3\frac{1}{2}$ per cent. Rupee Paper declining to Rs. 97-1-0 on the 13th of that month. But the market rallied soon, the announcement on the 16th October of the issue of a new 3 per cent. Funding Loan 1966-68 assisting in a general recovery. During the major part of November, the market tended to be easy due mainly to profit-taking sales, but recovered towards the close of that month. On the 6th December, there was an air-raid on Calcutta and the market again experienced a slight reaction, the 39 per cent. Rupee Paper declining to Rs. 97-5-0 on that date. The announcement on the 11th December of new minimum prices for the Central Government securities, which were in most cases higher than those **fixed** earlier,

favourably affected sentiment ; the **3½** per cent. Rupee Paper recovered to **Rs. 97-8-0** by the 13th December, and gradually advanced to **Rs. 99** by the 13th January 1944, and to **Rs. 99-6-0** by the 4th March. Thereafter a somewhat quiet tone prevailed and, after a sharp set-back early in April following developments on the Assam-Burma **Front**, the market resumed its upward trend on continued investment demand. The 3) per cent. Rupee Paper which had fallen to **Rs. 96-2-0** on the 10th April steadily recovered to its earlier peak of **Rs. 99-6-0** by the 3rd June and after declining to **Rs. 99-0-0** on the 16th closed at **Rs. 99-3-0** on the 30th as compared with **Rs. 94-5-0** at the end of the previous **accounting** year. The 3 per cent. undated Rupee Paper showed an even more substantial rise, the quotation at the end of June 1944 being higher than the previous year's closing by **Rs. 9** due mainly to the greater **scope** for capital **appreciation** in this issue. The more popular among the longer-dated loans **also** closed higher on balance, the gains ranging from **Rs. 1-8-0** in the **4½** per cent. Loan 1955-60 to **Rs. 3-6-0** in the 3 per cent. Loan 1963-65.

The **Economic** Adviser's index number of **Government** Securities (1927-28 = 100) showed a continued rise from **116·1** in June 1943 to **118·2** in February 1944. After a temporary recession to **117·7** in March and to **117·5** in April, it recovered to **117·9** in May. For the eleven months ended May 1944, it averaged higher at **117·6** as against **116·0** in the corresponding period of the previous year.

The improvement noticed in the industrial share market last year was on the whole well maintained during the present **Industrial Share** **Market.** accounting year. After an initial set-back, the market experienced a minor boom until January ; thereafter a comparatively quiet tone prevailed. The Economic Adviser's combined index number of variable yield securities (1927-28 = 100) for the eleven months ended May 1944 averaged higher at **186·6** as against **149·3** in the corresponding period of the previous year. The combined index which stood at **174·8** in June 1943 fell to **168·8** in July and remained at **170·9** in August mainly as a result of apprehensions regarding further Governmental action. All categories except coal were affected during July, the decline in cotton textiles being the most marked. On the 11th September, Government issued Rule 94C under the **Defence** of India Rules, prohibiting with effect from the 24th of that month all stock exchanges in British India from permitting or affording facilities for **bullet** transactions or for the **making** of any contracts other than for ready delivery contracts. The immediate effect of the rule was a temporary **recession** but soon the market rallied, the combined index number of variable yield securities for September recovering to **176·3**. The upward trend **continued** till January 1944, the index number for that month rising to the war-time record level of **200·1**, partly as a result of Government's **anti-inflationary measures** and the consequent diversion of funds from other markets. From February onwards, prices fluctuated erratically, and the market on the whole presented a subdued tone, the different groups reacting

diversely in accordance with the measure of Government control affecting each of them. The index number for May stood at **195·4** as compared with **174·8** at the close of the previous year.

Monetary conditions remained easy throughout the year under review and variations in money rates were confined to a narrow range. In Bombay, the inter-bank call rate and the three months' **fixed** deposit rate remained unchanged at $\frac{1}{4}$ per cent. and $\frac{1}{2}$ – $\frac{3}{4}$ per cent. respectively from the beginning of the year up to the middle of November 1943, when the three months' rate recorded a slight improvement to $\frac{3}{4}$ –1 per cent. as a result of the seasonal trade demand for funds. It remained at that level during the succeeding two months, but receded to $\frac{1}{2}$ – $\frac{3}{4}$ per cent. in the second week of January 1944 and **continued** unaltered till about the last week of March. Owing partly to the year-end requirements, particularly E.P.T. payments and partly to speculative activity following the developments on the Assam-Burma front, it improved again to $\frac{3}{4}$ –1 per cent. towards the end of March and was maintained around that level during the following two months. With the beginning of the slack season, it eased again to $\frac{1}{4}$ – $\frac{1}{2}$ per cent. in the **middle** of May and remained stationary up to the close of the year. The inter-bank call money rate advanced from $\frac{1}{4}$ per cent. to $\frac{1}{2}$ –1 per cent. in the middle of April, but gradually receded to $\frac{1}{4}$ per cent. by the end of that month and continued unchanged up to the close of the year. The six and twelve months' deposit rates remained steady at 1– $1\frac{1}{4}$ per cent. and $1\frac{1}{2}$ – $1\frac{3}{4}$ per cent. respectively from the beginning of the year up to May 1944 when owing to the extremely easy money conditions they declined to $\frac{1}{2}$ – $\frac{3}{4}$ per cent. and $1\frac{1}{4}$ – $1\frac{1}{2}$ per cent. respectively and continued at that level up to the end of the year.

The number of banks **included** in the second schedule to the Reserve Bank of India Act increased from 64 to 76 during the course of the year as a result of the inclusion of 13 banks (their names have been marked with an asterisk in the list of scheduled banks appended to this report) and the exclusion of Messrs. Thos. Cook & Son (Bankers) Ltd., consequent on their business having been taken over by Messrs. **Grindlay & Co., Ltd.** The applications of 7 banks for inclusion were under consideration at the end of the year. The number of banks included in the **second** schedule to the India & Burma (Burma Monetary Arrangements) Order, 1937, remained **unchanged** at 3.

The programme of inspection of banks which appeared to deserve exclusion from the second schedule continued to be carried out and 2 banks were inspected during the year for the purpose. It **was** found in the case of one bank that the value of its paid-up capital and reserves was slightly above the minimum laid down in section 42 (6) of the Reserve Bank of India Act, and the Government of India accepted our recommendation to keep the bank on the second schedule to the Act. In the case of the other, our inspection disclosed that the bank was ineligible for retention on the schedule, but it has been granted

six months to put its affairs in order. The bank will be inspected again finally to determine its eligibility to remain on the second schedule. Two other marginal scheduled banks have also been asked to prepare for inspection.

The table given below compares the position of scheduled banks as on the 25th June 1943 and the 30th June 1944.

(In thousand rupees)

	26th June 1943.	30th June 1944.	Difference.
1. Demand Liabilities in India ..	417,99,39	565,11,88	+ 147,12,49
2. Time Liabilities in India ..	131,23,39	182,31,82	+ 51,08,43
3. Cash in hand in India ..	17,72,79	30,73,47	+ 13,00,68
4. Balances with Reserve Bank ..	54,71,76	95,98,12	+ 41,26,36
6. Advances in India ..	141,30,17	211,47,37	+ 70,17,20
6. Bills Discounted in India ..	4,64,70	8,53,09	+ 3,88,39

The year under review witnessed a continuous rise in the total demand and time liabilities which stood at Rs. 747.44 crores on the 30th June 1944 as compared with Rs. 549.23 crores on the 25th June 1943. The percentage of cash in hand and with the Reserve Bank to total deposit liabilities which stood at 13.19 at the end of June 1943 rose to 16.95 at the end of June 1944. With the increase in deposits, average balances maintained by the scheduled banks with the Reserve Bank rose from Rs. 55.82 crores in the accounting year 1942-43 to Rs. 73.07 crores in 1943-44, the excess over the statutory minimum being also higher at Rs. 45.24 crores as against Rs. 36.42 crores in the previous year. Advances by scheduled banks during the year were larger and stood at Rs. 211.47 crores on the 30th June 1944 as against Rs. 141.30 crores at the close of the last year. The proportion of advances and bills discounted to deposits also increased from 26.57 per cent. at the end of the last year to 29.43 per cent. on the 30th June 1944.

Seven banks including one provincial co-operative bank approached the Reserve Bank for financial accommodation during the year, the total amount advanced being Rs. 379.15 lakhs.

The total number of offices of scheduled banks including head offices, branches, pay offices, etc., rose from 1,607 on the 30th June 1943 to 2,141 on the 30th June 1944, an increase of 534 offices as compared with an increase of 202 offices in the previous year. The 13 banks newly included in the schedule accounted for an addition of 155 offices, and there was a net increase of 379 in the number of offices of the existing scheduled banks. Eighty-eight new offices were opened at places which did not previously enjoy banking facilities offered either by a scheduled bank or a non-scheduled bank having capital and reserves above Rs. 50,000.

The total number of non-scheduled **banking companies** registered and working in British India and submitting returns under section **277L** of the Indian Companies Act was 530 at the end of December 1943 **as** compared with 534 a year before. Their total demand and time liabilities amounted to Rs. 34.79 crores at the end of 1943 as compared with Rs. **24.64** crores at the end of 1942 and the ratio of cash to deposits was also higher at **14.0** per cent. as against **10.7** per cent. As in the case of scheduled banks, the deposits of non-scheduled banks showed a rise during the year. The Reserve Bank continued to keep in touch with the non-scheduled banks.

During the course of the year 16 non-scheduled banks and one indigenous banker were included in the list of banks approved for concession rates of **remittances** under Appendix III of the Reserve Bank's scheme of remittance facilities introduced in October 1940. Four banks were excluded from the list, **one** of them having been wound up and the remaining three having been admitted into the second schedule to the Reserve Bank of India Act. The **total** number of non-scheduled banks and indigenous bankers in the list was 74 and 4 respectively at the **end** of the year.

It was mentioned in the last year's report that, in view of the acute shortage of paper, the publication of the issue covering the year 1942 had been held over for a year. It is proposed to issue combined Statistical Tables relating to Banks in India covering the years 1942 and 1943 towards the end of July 1944.

It was further mentioned in the last year's report that the opinions received as a result of the circulation of the proposals to amend section 2771 of the Indian Companies Act had been forwarded by the Government of India to the Reserve Bank for examination, on the completion of which the Bank's final recommendations in the matter would be forwarded to Government. **It** was also stated that the Board had noticed a number of undesirable features in the **organisation** and management of new banks and that steps should be taken to eliminate them. It was, however, felt that as the matter was of a controversial nature it might be desirable to postpone taking action till the question of comprehensive banking legislation was taken up. Subsequent experience, however, lent urgency to the problem, and the Board recommended to Government certain amendments to sections 2771-1 and 2771 of the Indian Companies Act. The amending bill received the assent of the Governor General on the 7th March 1944. By a notification in the Gazette of India dated the 10th June 1944 Government have **fixed** July 1, 1944, as the date on which the Indian Companies (Amendment) Act 1944 will come into force.

The amendments prohibit a bank from employing a managing agent or any person whose remuneration or part of whose remuneration

takes the form of commission or a share in the profits of the company or any person having a **contract** with the company for its management for a period exceeding five years at a time, and also impose the following restrictions on a banking company incorporated after the 15th January 1937 :-

(u) The subscribed capital should not be less than **half** the **authorised** capital and the paid-up capital not less than half the subscribed capital,

(b) The capital of the company should consist of ordinary shares only or ordinary and such preference shares as were issued before the commencement of the Indian Companies (Amendment) **Act, 1944**, and

(c) The voting rights of all shareholders should be strictly in proportion to the contribution made by the shareholders to the paid-up capital.

In order to allow existing companies time to comply with the requirements of the amended law, these provisions will come into force two years after the commencement of the Act.

In view of the trends observed in the development of Indian banking since the outbreak of war, the Board thought it desirable to take up the question of comprehensive banking legislation, consideration of which had been deferred on account of the war, without waiting for the cessation of hostilities. The Government of India have agreed that, in the circumstances explained by the Board, the enactment of a comprehensive Bank Act deserved early attention. The question has, therefore, been reviewed in the light of recent developments, and revised proposals for an Indian Bank Act have been forwarded by the Board to the Government of India for proceeding with the necessary legislation.

Applications for issue of capital by the existing banks and insurance companies as well as by new banking and **insurance** companies received by Government under Defence of India Rule 94A were forwarded to the Reserve Bank for their opinion. Since the promulgation of the rule on the 17th May 1943, opinions were expressed on 539 applications.

The activities of the Agricultural Credit Department received the careful attention of the Board throughout the year. The Agricultural Credit Section continued to study the problems connected with the co-operative movement, land **mortgage** banks, marketing, agricultural credit etc. In particular, it devoted its attention to the problems of the effect of the present rise in prices on the working of co-operative societies with special reference to recoveries, the efforts made by co-operative societies to promote thrift and savings among

Capital Issues under Defence of India Rule 94A.

Agricultural Credit Department.

members and non-members, and the attempts made to organise the **supply** and distribution of **foodstuffs** and other necessities of life on co-operative **lines** during the present emergency. The services of the Section were again **utilised** by co-operative banks, Registrars of Co-operative Societies, and Governments.

The Government of India having given their consent to the holding of the 14th Registrars' Conference in Bombay towards the end of July 1944, the Bank has undertaken to make arrangements for the holding of the Conference.

One Provincial co-operative bank took advantage of the facilities offered by the bank for giving loans at concession rates for financing seasonal agricultural operations or the marketing of crops. Another Provincial co-operative bank approached the Bank for financial accommodation against Government securities and a credit limit was sanctioned to it.

The balance sheet of the Bank as on **the 30th** June 1944 together with the profit and loss **account** has been supplied separately to the shareholders. To facilitate **compar-** **ison**, the profit and loss account figures for the preceding two years have also been incorporated.

The steady increase in the total of the balance sheet of the Issue Department which has been in evidence since the beginning of the war was maintained during the year under review, though at a slower pace, the total rising from Rs. **746·16** crores to **Rs. 943·40** crores. On the liabilities side, notes in circulation showed a relatively smaller increase of **Rs. 198·89** crores to **Rs. 931·37** crores as against an increase of **Rs. 285.25** crores during the previous accounting year. This decrease in the expansion of note circulation, despite the growing war expenditure, is in a large measure due to the success of Government's **anti-** **inflationary** measures. Of the assets, 'gold coin and bullion' remained unchanged at Rs. 44.41 crores at the statutory rate of valuation, namely Rs. 21-3-10 per **tola**. The continued rise in the war expenditure on behalf of His Majesty's and other Allied Governments, payments for which are made in sterling, resulted in a further increase of Rs. 260.54 crores in sterling securities from Rs. **567·79** crores to **Rs. 828·33** crores. Except, for one week, viz., the week ended the 19th November 1943, when sterling securities were **transferred** to the Banking Department in exchange for rupee coin taken over from Government, this item showed a continuous increase throughout the accounting year. The percentage of gold and sterling securities to total notes issued stood higher at 92.51 as against **82·05** at the close of the last year.

The depletion of stocks of 'rupee coin', which includes Government of India one rupee notes, as a result of issues to public was made good from time to time by taking over coin from Government, the net result of these transactions being a decline from Rs. **15·55** crores at the close of the previous accounting year to **Rs. 12·81** crores at the end of

June 1944. The Bank received from the Government **Rs. 10·06** crores of 'rupee coin' during the year in terms of sub-section (3) in addition to **Rs. 5** crores under sub-section (2) of section 36 of the Reserve Bank of India Act.

The value of 'rupee securities' which stood at **Rs. 118·41** crores on the 36th June 1943 steadily declined to **Rs. 58·33** crores by the 22nd October, mainly owing to the cancellations against sterling securities of *ad hoc* treasury bills, and continued at that level till the week ended the 30th June 1944, when it stood at **Rs. 57·84** crores.

Owing to a considerable increase in 'balances held abroad' as well as in scheduled banks' deposits with the Bank the total of the balance sheet of the Banking Department also showed a large rise **from** **Rs. 99·11** crores **to** **Rs. 201·69** crores.

On the liabilities side, the deposits of the Central Government increased nearly eight-fold from **Rs. 8·42** crores at the close of last year to **Rs. 65·25** crores at the end of June 1944. Deposits of the Government of **Burma** and other Governments also increased by **Rs. 6·97** crores to **Rs. 17·58** crores. The deposits of banks remained on a higher level than during the previous year, reflecting the plethoric money conditions and stood at **Rs. 94·35** crores on the 36th June 1944 against **Rs. 58·24** crores on the 36th June 1943. On the assets side, 'balances held abroad' **greatly** increased from **Rs. 75·88** crores to **Rs. 173·74** crores. 'Bills purchased and discounted', 'investments' and 'other assets' were also on a higher level than last year.

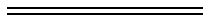
Attention was drawn in the Report last year to the gathering strength of the inflationary tendency and to the causes, psychological as well as economic, responsible for it. The vigorous measures taken by Government to combat inflation have achieved an appreciable measure of success, which is reflected in the declining trend of the various price indices referred to earlier in the Report. The main single item in Government's anti-inflationary campaign, apart from taxation, is borrowing and yet more borrowing. It is impossible to over-emphasize the imperative necessity for securing the maximum savings from all classes of the community. Unless success is achieved in this field, all other anti-inflationary measures, which have been adopted and are being pursued by Government for **sterilising** surplus spending power, securing a larger supply and an improved distribution of foodstuffs and other essential articles, rationing and price control, will fail to achieve the objective of reducing prices and stabilising the cost of living at a more reasonable level. It is, of course, also in the interest of the public themselves to refrain from spending at a time when prices are abnormally high and to save against a return to normal conditions when it would be possible for expenditure to be made to better advantage.

The Problem of Inflation.

The sterling balances with the Reserve Bank continued to accumulate, the net accretions during the accounting year being Rs. 358·40 crores as against Rs. 296·43 crores in the previous twelve months, and Rs. 932·49 crores since the beginning of the war. The total holdings as on the 30th June 1944 amounted to Rs. 1,002·07 crores. With the practical completion of repatriation operations, the problem before the Government and the Bank now is **that** of utilising these resources to secure capital goods and equipment for the various post-war reconstruction schemes now under consideration and to a lesser degree for obtaining a supply of those consumer goods from a shortage of which India has suffered during the war years. The problem is, to a large extent, that of diverting productive capacity in the United Kingdom towards satisfaction of the demands represented by these balances and it is expected that it will be possible to secure a satisfactory arrangement with the U. K. for the orderly liquidation, over a period, of these resources.

The International Monetary Conference convened by the President of the United States to discuss the joint statement of principles by experts for the establishment of an International Monetary Fund is being held at Bretton Woods in the U.S.A. at the time of the preparation of this Report. India is being represented at the Conference by a Delegation consisting of officials and non-officials of which the Governor of the Bank is a member. It is premature at this stage to attempt to assess the results achieved at the Conference as they affect India and it will be time to take stock of the position when the Delegation returns to this country.

By Order of the
Central Board of Directors,
C. R. TREVOR,
Deputy Governor.



APPENDIX

(8) *Scheduled Banks.*

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Ajodhia Bank. 2. Allahabad Bank. 3. American Express Co. *4. Andhra Bank. *5. Associated Banking Corporation of India. 6. Banco Nacional Ultramarino. 7. Bank of Baroda. 8. Bank of Behar. 9. Bank of China. *10. Bank of Commerce. 11. Bank of Communications. 12. Bank of Hindustan. 13. Bank of India. *14. Bank of Jaipur. *15. Bank of Mysore. 16. Bharat Bank. 17. Bengal Central Bank. 18. Calcutta Commercial Bank. 19. Calcutta National Bank. 20. Canara Bank. 21. Canara Banking Corporation. 22. Canara Industrial & Banking Syndicate. 23. Central Bank of India. 24. Chartered Bank of India, Australia & China. 25. Comilla Banking Corporation. 26. Comilla Union Bank. 27. Comptoir National D'Escompte de Paris. 28. Devkaran Nanjee Banking Co. 29. Dinajpore Bank. *30. Discount Bank of India. 31. Eastern Bank. *32. Exchange Bank of India & Africa. 33. Grindlay & Co. 34. Habib Bank. 35. Hind Bank. *36. Hindustan Commercial Bank. 37. Hongkong & Shanghai Banking Corporation. | <ol style="list-style-type: none"> *38. Hooghly Bank. 39. Imperial Bank of India. 40. Indian Bank. 41. Indian Overseas Bank. 42. Indo-Commercial Bank. 43. Industrial Bank of Western India. 44. International Bank of India. 46. Jwala Bank. 46. Karnani Industrial Bank. 47. Laxmi Bank. 48. Lloyds Bank. 49. Mahaluxmi Bank. 50. Mercantile Bank of India. 61. Nadar Bank. *52. Narang Bank of India. 53. Nath Bank. 64. National Bank of India. *55. National Bank of Lahore. 66. National City Bank of New York. 57. National Savings Bank. 58. Nedungadi Bank. 59. Netherlands India Commercial Bank. 66. Netherlands Trading Society. 61. New Bank of India. 62. New Citizen Bank of India. 63. New Standard Bank. 64. Noakhali Union Bank. *65. Oriental Bank of Commerce. 66. Oudh Commercial Bank. 67. Palai Central Bank. 68. Pioneer Bank. 69. Punjab & Sind Bank. 70. Punjab Co-operative Bank. 71. Punjab National Bank. 72. Traders' Bank. 73. Union Bank of India. 74. United Commercial Bank. 75. United Industrial Bank. *76. Universal Bank of India. |
|--|---|

(b) Burma *Scheduled* Banks.

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

* Included in the second schedule during the year ended June 1944.