

RESERVE BANK OF INDIA

REPORT OF, THE CENTRAL BOARD OF DIRECTORS FOR THE YEAR ENDED THE 30th JUNE 1945

To be presented to the Shareholders at the Eleventh Annual General Meeting to be held on Monday, the 6th August 1945, at Delhi, in the Meeting Room Of the Delhi Municipality, Town Hall Building, Chandni Chowk, at 3-30 p.m. (New Standard Time)".

1945.

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

For the year 1st July 1944—30th June 1945.

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 eleventh accounting period beginning on the 1st July 1944 and ending on the 30th June 1945.

ANNUAL ACCOUNTS.

After payment of expenses of administration and provision for sundry liabilities and contingencies the net profit amounts to **Rs. 14,89,26,893-11-1**

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 **3½** 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 report for the ninth accounting year ended the 30th June 1943), 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 **½** per cent. per annum equivalent to **Rs. 2,50,000-0-0**

leaving a surplus of **Rs. 14,69,26,893-11-1** 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. 4·63** 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 Bombay on the 7th August 1944 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 23rd November 1944, the Central Government nominated the Hon. Sir Cyril E. Jones, K.C.I.E., C.S.I., I.C.S., to be a Director of the Central Board under **clause (d)** of sub-section (1) of section 8 of the Act in place of Mr. A. C. **Turner, C.I.E., M.B.E., I.C.S.** Subsequently, on the 1st February 1945, Mr. K. G. Ambegaokar, I.C.S., was

Constitution of
the Central
Board.

nominated Director under the same clause in place of the Eon. Sir **Cyril Jones**.

In the vacancy caused by the resignation on the 28th February 1944 of Dr. **Narendra** Nath Law, a Director representing the Eastern (Calcutta) Area Local Board, the elected members of that Local Board elected Mr. A. K. **Ghose** on the 24th November 1944 in terms of the proviso to section 12 (4) of the Act.

Sir Homi **Meh̄ta**, K.B.E., Sir Syed Maratib **Ali**, C.B.E., **Khan** Bahadur Adam Hajee Mohomed Sait and Sir Arthur A. Bruce, K.B.E., the **Directors** nominated by the Central Government under section 8 (1) (b) of the Act, were due to retire at the end of December 1944 on the expiry of their period of **office** in terms of section 8 (4) of the Ad, and were renominated for a further period of **five** years with effect from the 1st January 1945.

During the year under report, six meetings of the Central Board **Meetings of the** were held, of which three were held in Bombay, and **Central Board** one each in Delhi, Calcutta and Madras. The **Com- and its Com-** mittee of the Central Board met 46 times in Bombay, **mittee.** 6 times in Calcutta and once in Madras.

The vacancy of an elected member of the Calcutta (Eastern) Local Board. **Local Boards.** in **March** 1942, which had been filled in July 1942 by nomination, was filled by election on the 29th September 1944 of Mr. Harry Douglas **Townend** who assumed office on **the 13th** October 1944.

The following table indicates the trends *in* the distribution of the **Distribution of** Bank's shares as between the different areas : **Shares bet-** **ween the vari-** **ous Areas.**

	Distribution of shares as on the			
	1st April 1935.	31st Decem-ber 1936.	30th June 1944.	30th June 1946.
Bombay	1,40,000	1,89,838	1,19,247	2,33,272
Delhitta :: ::	1,15,000	97,314	85,137	1,21,755
Madras	70,000	61,217	55,273	82,930
Rangoon	30,000	20,208	9,210	63,159
Total	5,00,000	5,00,000	5,00,000	8,884

	Number of shareholders as on the			
	1st April 1935.	31st December 1936.	30th June 1944.	30th June 1945.
Bombay	28,000	22,342	18,073	17,449
Calcutta	23,890	15,571	10,991	10,764
Delhi	23,000	16,744	11,514	11,026
Madras	14,000	9,702	7,111	6,847
Rangoon	3,157	1,914	603	554
Total	92,047	66,273	48,292	46,640
Average number of shares held by each shareholder	5.4	7.5	10.4	10.7

The total number of shareholders decreased during the year from 48,292 to 46,640. The number of shares on the register of the Calcutta area, which had remained practically unchanged last year, rose and that on the Bombay register continued to increase at the expense of the remaining three areas.

With a view to providing for the transaction of business for the British Military Administration in Burma, the Governor-General promulgated on the 9th June, 1945 an Ordinance called the Reserve Bank of India (Temporary Amendment) Ordinance, 1945, amending the Reserve Bank of India Act, 1934, by the addition of a new section 20A. The new section authorises the Bank to act as bankers to the British Military Administration in Burma, to perform such functions in relation to the currency and coinage of Burma as may be entrusted to it, and generally to afford to that Administration facilities similar to those which the Bank affords to the Central Government, on such remuneration as may be agreed to between the Bank and the said Administration

The agreement entered into under section 45 (1) of the Reserve Bank of India Act between the Bank and the Imperial Bank, effective from the 1st April 1935, provided for a revision, at the close of the first ten years of the agreement, of the remuneration to be paid to the Imperial Bank for the performance, at the places referred to in clause 1 of the Third Schedule to the Act, on behalf of the Reserve Bank of India, of the functions which the Imperial Bank was performing on behalf of the Central Government before the coming into force of the agreement. The first ten years of the agreement having come to a close on the 31st March 1945, the rates of remuneration

were revised with effect from the 1st April 1945 for a further period of five years. According to the revised rates, the commission payable to the Imperial Bank on the turnover of Government account is to be calculated at **1/16th** of one per cent. on the **first** 150 crores (in place of the first 250 crores), **1/32nd** of one per cent. on the next 150 crores (in place of the remainder), **1/64th** of one per cent. on the next **300** crores, and **1/128th** of one per cent. on the remainder of the total receipts and disbursements dealt with annually on account of Government.

A **new** design of the ten rupee note was introduced from the 5th October 1944, while a new series of the Government of India one rupee notes was issued from the **1st** December 1944.

As a **first** step in the rehabilitation of the country's economy in the liberated parts of Burma, which are under the British Military Administration, Burma, a Proclamation relating to the status of the various types of currency circulating in Burma **was** issued by the Supreme Allied Commander of the South East Asia Command on the 1st May 1945. According to this Proclamation, legal tender currency in the liberated parts of Burma will consist of (1) the Reserve Bank of India "Burma" Notes of the denominations of Rs. 100, **Rs. 10** and **Rs. 5**, (2) the Reserve Bank of India "India" Notes of all denominations and Government of India One Rupee Notes and coin and small coin, (3) the British Military Administration Notes which were **first** issued on the 1st May 1945 and which consist of the Reserve Bank of India "India" Notes of the denominations of Rs. 100, Rs. 10 and **Rs. 5** and Government of India One Rupee Notes, all overprinted with the inscription "Military Administration of Burma Legal Tender in Burma only" and (4) the British Military Administration special Notes of eight **annas** and four **annas**, of which the latter will be legal tender only for sums not exceeding one rupee. Under the same Proclamation, Burma Notes of the denominations of **Rs. 1,000** and **Rs.10,000** were not to be legal tender, though the *bona fide* holders of such notes could exchange them into legal tender currency within three months of the issue of the Proclamation.

With a view mainly to avoiding the disproportionate waste of metal involved in the use of nickel-brass alloy in the minting of the new series of the two **anna**, one **anna** and **half-anna** pieces introduced in **1942**, and to replacing the new **pice** pieces, which have not, been popular, the Government of **India** have decided to undertake a large recoinage programme as soon after the end of the war as possible. Under this programme, the nickel-brass alloy will be replaced by the pre-war cupro-nickel alloy, and a **pice** of new design will be issued. There is **also** a proposal to take advantage of the opportunity which might thus arise to introduce in India a decimal system of coinage **which** has replaced other forms in most of the countries of the world with the important exceptions of India, Britain and certain, Empire countries. According to this proposal the Indian rupee, like the

Ceylon rupee, would be divided not into 192 pies but into 100 cents. The rupee would remain unaltered, and the half-rupee and the **quarter-rupee** would retain their present shape, size, weight and metal content but would be issued as 50 cent and 25 **cent** coins. The lower denominations would be replaced by coins of the value of 10 cents, 5 cents, 2 cents and 1 cent, with possibly a $\frac{1}{2}$ cent coin. With a view to eliciting public **opinion** on this proposal a circular letter embodying the proposal has been issued by Government to banks, chambers of commerce and trade associations in the country.

The Bank's Report on Currency and Finance for the financial year ended the **31st March** 1945 will be issued in early August 1945. That Report deals with the economic and financial conditions in the country and with Government finances in greater detail than this Report which is intended primarily to review the Bank's working during the accounting year.

As the war in Europe entered its concluding phase, the position of India as a major arsenal and centre for the Allied operations- against Japan assumed increasing importance. The total defence expenditure during the war period brought to account in India's books amounted to **Rs.** 2,741 crores of which India's share was Rs. 1,347 crores (including Rs. 149 crores on capital account) and His Majesty's Government's share Rs. 1,394 crores. The aggregate Governmental expenditure on defence in the financial year 1944-45 is placed at **Rs.** 896 crores (or 33 per cent. of the total expenditure during the war) as against Rs. 774 crores in 1943-44. The general level of wartime economic and business activity was higher during the year than in the preceding year, although shortages- of power, skilled **labour** and transport affected production in certain industries. Easy money conditions continued to be the governing element in the financial markets. Gilt-edged prices remained **firm** almost throughout the year, while industrial share values, which experienced wide fluctuations, also registered gains except in the cotton textile section. **Speculation** prevailed in the bullion market, reflecting the pressure of idle funds and paucity of floating stocks, particularly of silver and the quotations showed a marked resilience in the face of favourable war news. Further extension 'of the measures of economic control and continued Allied successes, contributed to the comparative stability of the price level and cost of living and generally of the country's internal **economy** during the year under review. The growing strain on the country's **economy** was partially relieved by less restricted imports of food, consumer goods, essential raw materials, machinery and transport equipment consequent upon an improvement in the shipping and exchange position, while further relief was provided by release of additional quotas for civilian consumption in respect of a limited range of articles. A Mutual Aid Agreement signed between

India and Canada in **August** 1944, **provides** for imports of railway equipment including locomotives, rolling stocks and component parts.

The 'food situation in the' country showed a distinct improvement as a result of co-ordinated movement of **supplies** from surplus to deficit areas, further extension of rationing and compulsory procurement of foodgrains as well as larger supplies through imports and higher local production. While it **was** an aim of policy to secure fair prices to the consumer, the Central Government also issued instructions to provincial authorities to implement, wherever **necessary**, their undertaking to buy all wheat, **jowar** and **bajra** offered in the assembling market & in the main producing areas, in order to **ensure** an adequate return to the producer. An acute over-all shortage of **cloth** developed in the **country** during the year, which was aggravated in certain areas by **difficulties** of distribution resulting from lack of adequate transport. Alleviating measures taken or announced recently include improvement in supplies through **increase** in production as well as reduction of exports and **defence** requirements under the arrangements made by the Hydari Mission, through further increase in production as a result of the **standardisation** of mill output in terms of the Textile Industry (Control of Production) Order issued on the 1st June 1945 and through a beginning in the direction of rationing of cloth, e.g., in Bombay and Delhi. In respect of the **supplies** and distribution of other consumer goods fresh **specific** control orders were issued or existing measures extended during the year under review. The Bombay cost of living index (July **1933-June** 1934 = **100**), after a temporary rise from 236 in June 1944 to 259 in August 1944, tended to decline thereafter, falling to 226 by March 1945 **and** stood at 230 in May 1945 ; the index, however, mainly represents the **trends** in the **prices** of controlled articles and does not reflect the abnormal rates for black market dealings.

The Second Report on the Progress of Reconstruction Planning issued in October 1944, which envisages a **fifteen-year** programme classified into five-year periods, **emphasises**, among other things, the need for regionalisation and co-ordination by the Centre of industrial development and for State control and management of certain key industries. Accordingly the statement of Government policy in regard to the industrial development of the country issued on the 21st April 1945 visualisea transferring certain industries from the purview of the provinces to the Centre for purposes of co-ordinated regulation. The Planning and Development Member of the Government of **India has** recently been on a visit to the United Kingdom and the United States in order to consider various problems of future business **relations** between India and these countries and investigate possibilities of **securing** capital goods and facilities for training Indian technicians. A **non-official delegation** of seven leading Indian industrialists is **also** visiting the United Kingdom and the United States with the object of surveying the economic and industrial developments in these countries since the war.

During the year under review measures of economic control were further extended and separate Orders were issued regulating the supply, distribution and prices of specific commodities in common use. A number of additional articles were brought within the scope of the Hoarding and Profiteering Prevention Ordinance of 1943, and with a view to strengthening the price control measures adopted under this Ordinance and to preventing available supplies from going underground, a new order, *viz.*, the Consumer Goods (Control of Distribution) Order was issued in July 1944. Reductions in ceiling prices for certain goods including cotton cloth and **fixation** of ceiling prices for new classes of goods, e.g., vegetable oil products were features of the price control administration during the year. A notification issued early in March brought under the Open General **Licence** several classes of consumer goods for importation from the United Kingdom; these comprise 126 categories and cover items like drugs and medicines, certain chemicals, toilet requisites, writing and printing paper, artificial silk yarn, **woollen** fabrics, etc. Government also allocated for civilian use a part of the productive capacity reserved earlier for **defence** requirements. These measures supplemented by wider financial controls **enabled** the authorities to hold the inflationary pressure on the general price level. The Economic Adviser's general index number of wholesale prices (week ended 19th August 1939 = 100) which stood at 245·2 in July 1944 receded to 242·6 in September and after rising to 251·3 in January 1945 **steadily** declined thereafter and stood at 241·3 in June as compared with 240·9 in the closing month of the last accounting year. 'Primary Commodities', with the exception of '**Raw Materials**', more or less followed the movements in the general index as during the last year. Of this group, 'Agricultural Commodities' **declined** from 268·4 in July to 263·7 in September and after moving up to 277·6 in January 1945, fell to 256·4 in May and stood at 262·8 in June. The **downward trend** noticed in 'Raw Cotton' in the previous year continued during the **first five** months of the year under report, the index falling from 186 in July 1944 to 181 in November; thereafter it rose to 198 in January 1945 and fell again to 186 in June. 'Raw Jute' showed a continued decline from 214 in June 1944 to 199 in December, and remained about that level for the rest of the year. Apart from an initial reaction, the sub-group '**Raw Materials**' continued generally to show an upward tendency during the year, the index number rising from 204 in June 1944 to 212 in January 1945; it stood in June at 209. The index number of 'Manufactured Articles', after an initial rise from 259·6 in June 1944 to 262·0 in August, declined steadily, and latterly somewhat steeply, to 238·4 in May 1945, and stood at 244·7 in June. 'Cotton Manufactures' recorded a continuous decline, the index dropping from 295 in June 1944 to 276 in May 1945, while '**Jute Manufactures**' after a temporary recession between September and November, recovered to their original level by April 1945; the index number after declining from 256 in August 1944 to 241 in November moved up to 256 in April 1945 and

**Commodity
Prices.**

stood at 253 in June as compared with 256 in June 1944. The Economic Adviser's Food Index (base, ~~last~~ week of August 1939 = 100), a new series compiled since ~~February 1944~~, showed a decline from 238.5 in June 1944 to 231.6 in January 1945 and stood at 233.3 in June.

As a result of a distinct, **improvement** in the shipping situation and the greater attention bestowed, by principal **Balance of Trade**, **trading** countries on the development of export markets, the foreign trade of India showed a further substantial expansion, the aggregate value of the sea-borne trade in private, merchandise during the nine months ended March 1945 being Rs.331.18 crores or Rs.79.11 crores more than the corresponding figures for the previous year. Over 80 per cent. of this increase was accounted for by a rise in imports. The value of total imports went up by 68.4 per cent. from Rs.92.99 crores to Rs.156.63 crores. Exports also continued to improve, but at a slower rate, their, value showing an increase of 9.7 per cent. from Rs.159.08 crores to Rs.174.55 crores. In consequence the balance of trade, in private merchandise in favour of India showed a sharp decline by Rs.48.17 crores from Rs.66.09 crores to Rs.17.92 crores, being the smallest during the period of war. It appears from the figures for the first eight months ended February 1945, as compared with the corresponding period of the previous year, that the increase under imports was spread over all principal groups. It was relatively most marked in 'Food, drink and tobacco', which rose from Rs.5.16 crores to Rs.13.64 crores, but the absolute increase was largest in 'Raw Materials' from Rs.42.06 crores to Rs.77.88 crores, while imports of 'Manufactured Articles' improved by 35 per cent. from Rs.32.18 crores to Rs.43.48 crores: Under exports 'Raw Materials', which had started on an upward grade last year, rose by 10 per cent. from Rs.39.13 crores to Rs.43.09 crores, while 'Manufactured Articles' also went up by 8 per cent. from Rs.69.60 crores to Rs.74.85 crores. A feature reflecting the improvement in the shipping position during the year was the substantial increase in India's trade with **countries** like the United Kingdom and the United States.

In the rupee sterling exchange market, banks' quotations for **Exchange**, **telegraphic** transfers continued unaltered at lsh. 5-31/32d. selling and lsh. 6-1/32d. buying. In the case of demand drafts, however, an improvement in, the air mail service between India and the United Kingdom enabled banks to **reduce their** buying rate from lsh. 6-5/32d. to lsh. 6-1/8d. in August 1944 and again to lsh. 6-3/32d. in February 1945. A **corresponding reduction** of 1/32d. was made in the buying rate for three months' D/A bills which was lowered from lsh. 6-9/32d. to lsh. 6-1/4d. in August and to lsh. 6-7/32d. in February 1945. During the year there was a shortage of sterling for ready delivery and to relieve this the Reserve Bank of India **commenced** selling ready sterling in limited quantities from October onwards at lsh. 5-63/64d. Purchases of sterling for forward delivery continued

and the net **purchases*** by the Bank during the year amounted to **£63,139,341-5-8** as compared with **£101,493,921-4-10** 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 Government 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 **£240,195,000** at the end of the year as against **£162,685,000** at the end of the previous year.

There were no changes during the year in the existing system of Exchange **Control**, and sales of currencies of countries outside the sterling area continued to be restricted, but a more liberal policy was pursued in regard to demands for foreign exchange for purposes which were considered to be of value and importance to the country. The quotas under the import licensing **system** for the import of consumer goods from countries outside the sterling area were increased as a means of combating inflation and of meeting the extreme shortages arising from the severe restrictions on imports that had been imposed during the previous four years. Greater facilities were also granted for journeys to countries outside the sterling area, particularly to the U.S.A., for business purposes, and a larger number of students proceeded to the U.S.A. to take **courses** in American Universities.

As a result of the liberation of the majority of the **European** countries, **trade** to a limited extent was resumed between India and the Continent, mainly on **Government** account, but arrangements were made for private financial transactions to a limited extent with certain of these countries.

Excepting for temporary setbacks, the **bullion market displayed** a firm tone during the year under review owing partly to strong demand for investment purposes and partly to the technical position: in the market which enabled **the bull** interests to exploit the shortage of the ready **metals**, although such shortage was to an extent relieved by **official** sales of **both** the metals over the greater part of the year. A feature of the market was its remarkable resilience during the latter part of the year in face of the rapid success of **the Allied Arms**; **even** the termination of the hostilities in **Europe** in early May this year **had no appreciable effect** on the course of bullion prices which in both the sections tended to higher levels, in view of **indications** that bank loans were being **utilised** for **speculative** purposes, on the **26th** May 1945 a **new clause** numbered (iii) was added by the **Central Government** to Rule **94B(1)** of **Defence of India** Rules (referred to in the last year's report) **authorising** the Central Government to **issue directions** to a banking company doing business in British India to **furnish** to such authority as may be specified in this behalf such information as that authority might call for in respect of **advances**

* The **purchases** of sterling during any month represent deliveries of sterling during that month under both ready and forward-contra&s.

against bullion. On the same day a notification was issued by the **Central** Government directing banks to furnish to the Reserve Bank such information regarding **these** advances as may be required by the **Reservo** Bank.

The recovery in the bullion market which followed a sharp break in prices about the middle of June 1944 continued during August and September. During the following three months a reaction set in, the quotations touching the lowest levels of the year about the close of October in the case of gold and early in November in the case of silver. From December onwards, apart from minor recessions, the market showed a distinctly upward tendency, the quotations in both the sections closing for the year higher than at the end of June 1944.

The ready price of gold which had recovered from **Rs.72-1-0** on, the 23rd June 1944 to **Rs.73-12-0** on the 30th of that month improved further to **Rs.75-12-6** by the 18th August. In September and October, owing to heavy liquidation induced by expectations of an early peace, the rate **was** continually marked down until it touched **Rs.61-2-0** on the 26th October, being the lowest for the year. From the middle of November as a result of growing demand, investment as well as speculative, a **firm** rising tendency appeared which was reinforced by shortage, of floating **stocks**. Ready gold showed an **almost** continued rise reaching **Rs.76-5-0** by the 2nd January 1945. Thereafter, except for temporary reactions at the close of that month and again about the middle of March the quotation was sustained, the ready price rising to **Rs.75-10-0** by the 13th April. In view of the unduly high **Budla** charges* demanded by bulls the Bombay Bullion Exchange made a new rule **eff ective** from the 16th April prescribing the maximum penalty for non-delivery in case of both gold and silver. The ready rate temporarily eased to **Rs.73-4-0** on that date but firmed up again to **Rs.77-11-0** by the 28th April on an unfounded report regarding an upward revision of the price of gold in the United States. The news of victory in Europe brought a fall in the ready price to **Rs.71-12-0** on the 8th May, **With** sustained upcountry demand, however, the rate moved up quickly and, following the announcement by the British Treasury of an increase in their official price of gold, advanced to **Rs.79-14-0** by the 16th June, closing for the year at **Rs.77-8-0**.

The silver section was dominated by bull interests to an even greater degree. The ready price which stood at **Rs.131-8-0** at the close of June 1944 increased to **Rs.139-8-0** by the 26th July. In August the market was partially **disorganised** as a result of sharp disagreement between the leading bulls and the authorities of the Exchange on the **practice** of permitting the carry-over of unfulfilled contracts in **respect** of weekly deliveries in contravention of Rule 90C referred to in the last report. The decline was **further** accelerated by the resumption of official sales of silver in August and the market's growing belief in **an** early termination of the war in Europe, the quotation touching the lowest level of the year at **Rs.113-10-0** on the 7th

* Charges for **carry-over** or shifting **forward** the **maturity** date **of the contract**.

November; At **this** stage bull interests seemed to be gradually **re-asserting** themselves, and recovery was assisted by the emergence **of the** usual seasonal demand. The quotation moved up to **Rs.135-0-0** by the 22nd December. A temporary recession occurred **early** in February when the rate fell to **Rs.119-6-0**. It recovered to **Rs.131-12-0** by the 5th March and after reacting again to **Rs.124-6-0** about the middle of that month in sympathy with gold, **rose** sharply to **Rs.135-15-0** by the 14th April. With a view, to counteracting, bull manipulations and to ensuring a more equitable distribution of **the**, metal among dealers, the Reserve Bank, on a representation made by the Bombay Bullion Exchange, announced that the sale **of silver** to any one party would, with **effect** from the 17th April 1945, be restricted to 25 bars a day ; the Bank also issued on the same date a circular to the 'scheduled banks in 'Bombay inviting their co-operation in checking speculative bullion dealings. These measures appeared to have had a salutary **effect**. The ready price **came** down to **Rs.129-10-0** on the 18th April. Following the news of Germany's 'unconditional surrender on the 8th May the quotation further dropped to **Rs.124-0-0** on that date. The setback, however, proved short-lived ; a reduction in the **official** offerings of silver during the latter half of May and the British Treasury announcement early in June regarding the upward revision of the official **price** of gold, made for a quick recovery : the ready price advanced to **Rs.132-12-0** by the 28th May, and to **Rs.138-12-0** by the 16th June, and, after a steep reaction on the 28th June on heavy unloading by bulls, the rate closed for the year at **Rs.132-4-0**.

Borrowing continued to be the **mainstay of the** ways and means programme **of** the Central Government. Sustained investment demand, which was a feature of the Government Loans. **gilt-edged market almost** throughout the year under review, enabled the Government to issue a number of new loans as well as **to** create special issues **of** some existing loans.

The First Victory Loan 1957, issued in April 1944, continued to **be** on tap till the 17th February 1945 when it was closed and replaced by another tap issue, *viz.*, the Second **Victory** Loan 1959-61, from the 19th March. Early in October, in order to meet a strong demand on the part of institutional investors for a long-term investment, Government created a special issue of Rs.35 **crores** of the-existing 3 per cent: Funding Loan. 1966-68. Between October 1944 and January 1945 Government also sold, at par, rupee counterparts of the **3½** per cent. undated Rupee Paper, the sale of which had been discontinued on the 16th October 1943. This was followed by the flotation on the 16th April of a new 3 per cent. First Development Loan **1970-75**, subscriptions to which were to be accepted either in the form of cash, or of the 5 per cent. Tax-free Loan '1945-55 which **was** notified simultaneously for repayment **on** the 15th October. The proceeds of the loan were intended to be used to build up Government's resources for the purposes of reconstruction. The loan, which was opened on

the 16th April, was closed on the 18th when **Government** announced the creation of a further issue of Rs.25 **crores** of the existing $2\frac{1}{2}$ per cent. **Loan** 194852. The total amount raised during the accounting year through all new issues and sales of loans on tap amounted to **Rs.280.60 crores**.

Six Provincial Governments, *viz.*, Bombay, Madras, Central Provinces and **Berar**, the Punjab, United Provinces and Sind floated simultaneously on the 15th August 1944, 3 per cent. medium-dated Loans of the aggregate value of **Rs.13.28 crores**, repayable at par on the 15th August 1958. The proceeds of the loans were intended, as in the previous two years, to be used to make advance repayment of a part of these provinces' consolidated debt to the Central Government.

With the virtual completion of repatriation of India's sterling **debt**, **noticed** in the last year's report, the operations Repatriation of during the year under review were confined to **acqui-**
Sterling Debt. **sitions** of stray parcels of Government of India's, sterling stocks and of railway debentures, surrendered either under Vesting **Orders** or under special arrangements.. The amount thus repatriated during the year **came** to **£383,513**, which reduced the outstanding amount of sterling debt to **£10.56** million at the end of June 1945 (excluding the liability for British Government 5 per cent. War Loan (1929-47) taken over by India as part of the last war **contribution**). The aggregate sterling liabilities redeemed since repatriation **first** began in 1937 **upto** the end of **June** 1945 are **£322.06** million. The Government also **acquired** during the year the Bengal **Nagpur** Railway at a cost of approximately 63.6 million.

The gilt-edged market registered a further improvement during the 'accounting **year** under review, the Economic **Indian Securities** Adviser's index number of Government securities **Market.** (1927-28 = 100) 'averaging higher at **117.9** during the eleven months ended May 1945 as compared with 117.6 during the corresponding period of **the** preceding year. The continued firmness of the market almost throughout the year enabled the Government to raise the selling 'price of the special issue of the 3 per cent. Funding **Loan** 1966-68 from **Rs.98-2-0** to **Rs.98-4-0** from the 8th July 1944 and again by another two **annas** from the 12th March 1945. Prices showed an almost continued rise **upto** December and, after a reaction during the succeeding two months, again tended upwards, gaining further strength from the long-awaited announcement of victory in Europe in early May. The year-end quotations. of most of the loans were appreciably higher than those at the close of the previous year.

The $3\frac{1}{2}$ per cent. undated Rupee Paper which had stood at **Rs.99-3-0** on the 30th June 1944 showed an **almost** uninterrupted improvement until, for the first time since February 1937, it touched par on the 16th November. Between the close of **December** 1944 and of **February 1945**, **partly** as a result of a temporary stringency in the

money market, gilt-edged prices evinced an easier tendency, and the $3\frac{1}{2}$ per cent. Paper declined to **Rs.99-6-0** by the 7th February. A definitely upward tendency set in thereafter, the flotation in March of the 3 per cent. Second Victory Loan 1959-61 imparting a steady tone. Early in April the Central Government announced a further upward revision of the minimum prices of both the 34 per cent. undated Rupee Paper and 3 per cent., undated Rupee Paper, the new minima fixed being Rs.96 and Rs.85 respectively ; Government at the same time fixed the minimum price of the 3 per cent. First Victory Loan 1957 at **Rs.97-8-0**. The new minimum prices accompanied by the announcement of the First Development Loan 1970-75 as well as the creation of a further issue of the $2\frac{3}{4}$ per cent. Loan 1948-52 had a favourable effect on the market. The $3\frac{1}{2}$ per cent. Paper steadily improved to **Rs.100-2-0** by the 18th April, and following the announcement of the Allied Victory in Europe, the market tended to move up rapidly, the $3\frac{1}{2}$ per cent. Paper closing for the year at **Rs.101-10-0** or **Rs.2-7-0** higher than at the end of the previous year. The terminable section generally followed the trend of the $3\frac{1}{2}$ per cent. undated Rupee Paper. Among representative loans in this section, the 3 per cent. Loan 1951-54 and the 4 per cent. Loan 1960-70, which had closed for the previous year at **Rs.100-12-0** and **Rs.112-7-0**, improved to **Rs.101-3-0** and **Rs.112-14-0** by the middle of November. In the reaction that followed, these loans receded to **Rs.100-8-0** and **Rs.112-10-0** about the middle of February, but steadily recovered thereafter to **Rs.101-3-0** and **Rs.113-0-0** by the end of the year under review, showing gains of annas 7 and annas 9 respectively, over the previous year's closing price.

Reference was made in the report for the year ended the 30th June 1942, to the introduction by the Bank of a scheme for conversion by investors of Promissory Notes into Stock Certificates and for reconversion of the latter into the former, both free of charge. The amounts of conversions and reconversions respectively came to **Rs.46·28** crores and **Rs.18·78** crores during the eleven months ended May 1945, the corresponding figures for the period beginning with the 1st March 1942, when the scheme was introduced, up to the end of May 1945 being **Rs.285·50** crores and **Rs.51·40** crores. Institutional investors such as banks, provincial co-operative banks and insurance companies continued to avail themselves of the facility which the Bank extended to them from March 1942 of holding securities in public debt offices in the form of a special ledger account known as the Subsidiary Ledger Account, which offered, among other advantages, the facility of transferring by investors of their holdings from one account to another within the same public debt office for amounts of **Rs.25,000** and multiples thereof, free of charge.

Despite setbacks induced by continued Allied successes and consequent apprehensions regarding possible recession in industrial activity, prices in the industrial share market ruled on the whole higher than during the previous accounting year. The Economic Adviser's combined index number of prices of variable yield securities (1927-28

= 100) for the eleven months ended May 1945 worked out **higher** at **198.5** as against **186.8** during the **corresponding** period of the **preceding** year. As regard individual groups, among equities, **all** except cotton and sugar showed **on** the whole a distinct rise ; the comparatively sharp recession in cotton **shares may** be partly attributed to the further intensification of Governmental control measures affecting the industry

The advance noticed **towards** the close of 1943-44 continued through July 1944, the Economic Adviser's combined index rising from 198.9 in June 1944 to 203.6. A **recession during** the next two months mainly on expectations of an early peace, was followed by a wider recovery and the index number which had touched 187.7 in September showed a more or less consistent rise to the wartime peak of **204.6** in February 1945. During the next two months prices **tended** to lower levels on renewed peace **rumours**, the index number dropping to **199.8** in April. A recovery followed as a result mainly of the modified view which the market appeared to have taken in regard to the repercussions of the cessation of hostilities and, apart from a minor setback as an immediate reaction of the news of the Allied victory in Europe, the market remained comparatively steady for the rest of the year. The index number of variable yield securities for May stood at 202.2 as compared with **198.9** at the end of the **previous** year.

The fixed yield industrial securities section showed an exceptionally firm tone throughout the year under review mainly in consequence of the strong preference shown by investors for this class of securities to avoid capital depreciation in the post-war period ; while even the gilt-edged securities showed a slight decline during the latter half of the year under review, the index number of fixed yield industrial securities steadily moved up from 173 in June 1944 to **178.2** in December and **181.9** in April 1945, and stood **at** **181.5** in May.

Although the various financial markets were comparatively active during the year under review, the short-term money market was **characterised** by plethoric conditions with the result that the call rate among the larger banks in Bombay was quoted at $\frac{1}{4}$ per cent, throughout the year. Thrtthree and six months' fixed deposit rates offered by these banks improved from $\frac{1}{4}$ - $\frac{1}{2}$ per cent. and $\frac{1}{2}$ - $\frac{3}{4}$ per cent. respectively at the end of the last year to $\frac{1}{2}$ - $\frac{3}{4}$ per cent. and $\frac{3}{4}$ -1 per cent. respectively at the beginning of October 1944 and continued unaltered at those levels till the 25th June 1945 when they receded to $\frac{1}{2}$ per cent, and $\frac{1}{2}$ - $\frac{3}{4}$ per cent. respectively. The twelve months' rate was subjected to frequent though narrow fluctuations ; the rate which was quoted at $1\frac{1}{4}$ - $1\frac{1}{2}$ per cent. at the end of the previous year improved **to** $1\frac{1}{2}$ - $1\frac{3}{4}$ per cent. towards the end of September 1944 on increased seasonal demand for funds but eased to 1 - $1\frac{1}{4}$ per cent. in the **first** week of February 1945. There was a slight recovery to $1\frac{1}{4}$ - $1\frac{1}{2}$ per cent. in the middle of March 1945, at which **level** it remained unchanged till the end of the year.

During the year under review, the number of banks included in the **second** schedule to the Reserve Bank of India **Scheduled Banks. Act rose from 76 to 86.** (The **names of the new** scheduled banks have been marked with an **asterisk** in the list of **scheduled** banks appended to this report). The usual inspection **was** considered **unnecessary** in the **case** of two of the banks which appeared *prima facie* to satisfy the conditions laid down in section **42(6)** of the Reserve Bank of India Act and the usual inspection before inclusion in the schedule was, therefore, dispensed **with**. The remaining banks were admitted to the schedule **after** an investigation of their affairs. The applications of 11 banks were under consideration at the end of the year. The number of banks included in the second schedule to the India and Burma (Burma Monetary Arrangements) Order, 1937, remained unchanged at 3, the total number of scheduled banks at the end of the year being 89.

The inspection of scheduled banks to test their eligibility for retention in the second schedule continued to be carried out, and three banks in the Eastern (Calcutta) Area were inspected and **one** bank in the Southern (Madras) Area was to be inspected for this purpose. Of these banks, one was found eligible for retention in the schedule, but the other two appeared to be disqualified for retention. The cases of the latter two were, however, still under consideration at the close of the period.

The table given below compares the position of scheduled banks as on the 30th June 1944 and the 29th June 1945:—

(In thousands of rupees)

	30th June 1944.	29th June 1945.	Difference.
1. Demand Liabilities in India . .	5,65,11,88	6,29,44,42	+ 64,32,54
2. Time Liabilities in India . .	1,82,31,82	2,39,13,45	+ 56,81,63
3. Cash in hand in India . .	30,73,47	36,87,00	+ 6,13,53
4. Balances with the Reserve Bank	95,98,12	78,85,80	— 17,12,32
5. Advances in India	2,11,47,37	2,79,74,26	+ 68,26,89
6. Bills discounted in India . .	8,53,09	13,61,91	+ 5,08,82

During the year under review, the total demand and time liabilities of scheduled banks maintained their upward trend, rising from **Rs.747.44** crores on the 30th June 1944 to **Rs.868.58** crores on the 29th June 1945. The proportion of demand liabilities to total liabilities which was as high as 75.6 per cent. on the 30th June 1944, declined to 72.4 per cent. by the end of the year under review. The percentage of cash in hand and with the Reserve Bank declined from 16.95 at the end of June 1944 to 13.33 at the end of June 1945, mainly as a result of an increase in the trade demand for funds. The balances maintained by scheduled banks with the Reserve Bank at the end of

the accounting year were lower at Rs.78.86 crores as compared with **Rs.95.98** crores at the end of the previous year, the excess over the statutory minimum declining from **Rs.64.08** crores to **Rs.42.60** crores. Advances by scheduled banks during the year further rose to **Rs.279.74** crores on the 29th June 1945 as against **Rs.211.47** crores on the 30th June 1944. The proportion of advances and bills **discounted** to deposits increased from **29.43 per cent.** on the 30th June 1944 to **33.77 per cent.** on the 29th June 1945.

Owing to easy **money** conditions, only four banks approached the Reserve Bank for financial accommodation during the year, the total amount of loans granted to these banks being **Rs.103.25** lakhs as compared with **Rs.379.15** lakhs advanced to seven banks during the previous year.

The total number of offices of scheduled banks including **head** offices, branches, pay offices, etc., **rose** from 2,141 on the 30th June 1944 to 2,715 on the 30th June 1945, an increase of 574 against 534 in the previous year. The ten banks newly included in the second schedule **accounted** for an addition of 111 offices. Seventy one new **offices** were opened at places which were not previously served either by a scheduled bank or by a **non-scheduled** bank having capital and reserves above **Rs.50,000.**

The **total** number of non-scheduled banking companies registered and working in India and submitting returns under Section 277L of the Indian Companies Act was 613 at the end of December 1944 as compared with 530 a year before. Their total demand **and** time liabilities **increased from Rs.34.79** crores at the end of 1943 to **Rs.53.13** crores at the end of 1944 and the ratio of cash to **deposits** declined from 14 per cent. to **11.4 per cent.** **during** the same period.

During the **course** of the year, 9 non-scheduled banks 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. Five banks were excluded from **the** list as they were admitted to the second **schedule** to the Reserve Bank of India Act thereby becoming eligible for **even better remittance** facilities. The total number of non-scheduled banks **and** indigenous **bankers** in the list was 78 and 4 respectively at the end of the year.

It was decided during the year that non-scheduled banks desirous of opening accounts with the Reserve Bank may be allowed to do so with effect from the 15th February 1945, The opening of all such accounts will **be** at the absolute discretion of the Reserve Bank and will be subject, *inter alia*, to the following terms **and conditions** :—

(i) The non-scheduled bank should maintain a minimum balance commensurate with the volume of business transacted and in no case less than **Rs.10,000.** The Reserve Bank reserves the right **to** prescribe a higher minimum balance if the **labour** involved in keeping the account is out of proportion **to** the balance maintained, **and** to close the account if the minimum is not maintained.

(ii) The account should not be treated as an ordinary current account **and** cheques in favour of third parties should not be issued. It may, however, be used for remittance purposes and inter-bank transactions.

A circular letter embodying the above terms and conditions was addressed in December 1944 **to** all the non-scheduled banks in British India. In response to this circular, applications for opening accounts were received from 33 non-scheduled banks. Of these 9 **applications** were, accepted, 17 were rejected and **7** were pending disposal.

As mentioned in the last report, combined Statistical Tables relating to Banks in India covering the years 1942 and 1943 were published in July 1944. The publication of the Statistical Tables covering the year 1944 **has** been suspended as **a** measure of paper economy.

It **was** mentioned in the last year's report that in view of the trends observed in the development **of Indian** banking since the outbreak of war, Government had agreed that the enactment of a comprehensive Bank Act deserved early attention. It was also stated that revised proposals for an Indian Bank Act had been submitted by the Board **to** the Government of India for promoting the necessary legislation. Accordingly, a bill "**to** consolidate and amend the law relating to banking companies" on the lines recommended by the Board was introduced in the Legislative Assembly on the 16th November 1944, and a motion for the circulation of the bill for eliciting public opinion was adopted by the Assembly on the 20th November 1944. Most of the opinions were received by the end of **March 1945**, and on the 11th April 1945 the Legislative Assembly adopted a motion for the reference of the bill to a Select Committee. The Select Committee is to meet in October 1945, and **it** is expected that the bill will be taken up for final consideration in the autumn session of the Legislature. The bill incorporates the provisions of Part XA of the Indian Companies Act with certain modifications, and also contains several new provisions designed **to** safeguard the interests of depositors and to ensure the development of banking in India on sound lines. The main features of the bill are as follows :-

(i) A simple definition of banking with the object of limiting the scope of the legislation **to** institutions in which funds are deposited, primarily **to** ensure their safety and ready withdrawability ;

(ii) Fixing of minimum capital standards ;

(iii) Prohibition of trading with a view to eliminating **non-banking** risks ;

(iv) Inclusion in the scope of the legislation of banks incorporated or registered outside British India ;

(v) Provision of an expeditious procedure for liquidation ;

(vi) Inspection of the books and accounts of a bank by the Reserve Bank when necessary ;

(vii) Empowering the Central Government to take action against banks conducting **their** affairs in a manner detrimental to the interests of the depositors ;

(viii) Prescription of a special form of balance sheet and conferring powers on the Reserve Bank to call for periodical returns.

The Government of India continued to forward to the Reserve Bank of India for opinion applications received from the existing as well as proposed banking and insurance companies, for issue of **capital** under the Defence of India Rule **94A**. Since **the** promulgation of the Rule on the 17th May 1943, opinion has been furnished on 843 applications of which 604 related to banking and 239 to insurance companies.

Capital Issues under Defence of India Rule 94A.

The balance sheet of **the** Bank as on **the** 30th June 1945 together with the profit and loss account has been supplied separately to the shareholders. To **facilitate** comparison, **the** profit and loss account figures **for** the preceding two years have also been incorporated.

Operations of the Issue Department.

The upward trend in **the** total of the balance sheet **of** the Issue Department witnessed since the outbreak of war continued during the year, the total of **Rs.1,151.79 crores** as at the end of the accounting year under review showing an increase of 22 per cent. over the figures as on the 30th June 1944.

On the liabilities side, notes in circulation stood at **Rs.1,137.47** crores, giving an increase of **Rs.206.10** crores as compared with an increase of **Rs.198.89** crores during the previous accounting year. The rate of currency expansion which had tended to slow down till December 1944, **was** again marked up from that month, mainly as a result of increased expenditure owing to the **intensification** of **the** Allied offensive against Japan.

On the assets side, ' gold coin and bullion ' continued unchanged at **Rs.44.41** crores at the statutory rate of valuation, namely **Rs.21.3-10** per tola. Sterling securities showed a continued rise from Rs.828.33 crores to **Rs.1,034.33** crores on receipts of sterling from His Majesty's Government in respect of recoverable war expenditure incurred on behalf of the Allied Governments. The percentage of gold and sterling securities to total notes issued stood higher at **93.66** against **92.51** at the close of the. previous year. ' Rupee coin ', which includes Government of India one rupee notes, increased from Rs. **12.81** crores to **Rs.15.20** crores at the end of June 1945. The Bank received from **the** Central Government **Rs.10** 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. ' Rupee securities ' which had declined from **Rs.118.41** crores on the 30th June 1943 to

Rs.57.84 crores at the end of the last year remained unchanged at that level throughout the accounting year under review.

The total of the balance sheet of the Banking-Department more than doubled, rising from **Rs.201.69** crores to Rs.425.89 crores mainly owing to a sharp increase under Central Government Deposits on the liabilities side, and a corresponding increase in 'Balances held abroad' on the assets side.

**Operations of the
Banking De-
partment.**

The deposits of the Central Government increased by Rs.212.72 crores to **Rs. 277.97** crores. The deposits by banks fluctuated widely between Rs.113.10 crores for the week ended the 3rd November 1944 and Rs.67.27 crores for the week ended the 26th January 1945, largely reflecting the changing trade demand for funds, and stood at Rs. 80.19 crores at the end of June 1945. On the assets side, 'Balances held abroad' increased by Rs.214.39 crores from Rs.173.74 crores to Rs.388.13 crores, and 'Investments' by **Rs.10.34** crores to **Rs.21.45** crores while 'Bills Purchased and Discounted' were reduced from Rs.2.59 crores to nil.

The activities of the Agricultural Credit Department received the careful attention of the Board throughout the year.

**Agricultural Cre-
dit Depart-
ment.** The Agricultural Credit Section continued to study the problems connected with the co-operative move-
ment, land mortgage, banks, marketing, agricultural credit, etc., with special reference to the conditions created by the war and those likely to arise in the post-war period. The services of the Section were, as in previous years, utilised by co-operative banks, Registrars of Co-operative Societies and Governments.

Two Officers of the Department were appointed as members of three committees set up by the Government of India. The **Officer**-in-Charge of the Agricultural Credit Section was member and secretary of the Agricultural Finance Sub Committee and the Co-operative Planning Committee, and the Director of Research served on the Sub-Committee on Agricultural Prices of the Policy Committee on Agriculture to inquire into the fixing of minimum prices for agricultural produce and to report on the measures **to** guarantee agricultural producers an assured market at remunerative prices.

With a view to opening an important avenue for the Reserve Bank for providing finance to agriculture, a draft bill for the regulation and establishment of licensed warehouses in India was prepared by the Department and sent to the Provincial Governments and important Indian States with the recommendation that legislation on the lines proposed by us with **modifications** to suit local conditions might be undertaken by them.

The statistical statements relating to the co-operative movement in India for the years 1941-42 and 1942-43 were published during the year.

The rebate of one per cent. allowed under the **scheme** of Rediscounts for and Advances to Provincial Co-operative Banks on bills or

promissory note⁸ drawn for financing marketing of crops, **was** extended during the year to bills or promissory notes drawn for **financing** seasonal agricultural operations. In the **case** of one Provincial Co-operative Bank the rebate **was raised to 1½** per cent. as a special case and on an experimental basis.

An appropriate credit limit was **sanctioned** to one Provincial Co-operative Bank, **which** approached the Reserve Bank for accommodation at **concession rate⁸** for financing marketing of crops.

Owing to the considerable expansion in the scope of work of the statistical and research section with **many** urgent problems claiming the Bank's attention, **and the** need for placing research on **monetary** and economic subjects, **including** rural economics, on **a** properly extended basis, the **organisation** of a new Department of Research and Statistics was approved by the Central Board in its meeting held on the 2nd April 1945. The Department will function under **the general** supervision of the Economic Adviser to the Bank. It will consist of a Division of **Economic** Intelligence and Monetary Research to organise fuller study of the subject⁸ and problems of central banking relating **to** currency, banking and finance and of general economic **questions** in the post-war era. There will also be a Division of **Statistics** to prepare new statistical series and indices and to collate and record economic and financial statistics, and a Division of Rural Economics to conduct research in problems of agricultural economic⁸ and finance, co-operation and agricultural marketing. Arrangements to provide the **necessary** additional staff for the new Department are in progress. Preparatory to the expansion of our own research organisation, Dr. B. K. **Madan**, the Director of Research who accompanied the Indian Delegation to the International Monetary Conference a⁸ Secretary (as mentioned in a **subsequent** paragraph) stayed on in America **and** visited important economic, financial and **central** banking research institutions **in** Washington, New York and Ottawa (Canada) with a view to studying their 'organisation and methods of research work ; **such** institutions included the Board of **Governors** of the Federal Reserve System, the **Divisions** of Research and Statistics, of Monetary Research and of Tax Research of the United States Treasury Department, the Bureau of Foreign and Domestic Commerce of the **United State⁸** Commerce Department, the Bank of Canada Department of Research and Statistics, the research departments of the National City Bank and Chase National Bank and other outstanding official and non-official economic research bodies.

In the last year⁸ report mention was made of the measure of **success** achieved by Government in safeguarding the country's economy against the consequences of the prevalent inflationary tendencies. In the year under review, the rate of monetary expansion slowed down on the whole, though it tended to quicken during the

**The Economic
Perspective.**

latter part owing to larger expenditure in connection with the prosecution of the war against Japan ; the indices of wholesale prices, of cost of living and of food prices tended steadily downwards though essential goods continued in scarce supply ; the prices of Government and fixed yield industrial securities reflected a widening demand on the part of large classes of investors. The absorption of excess purchasing power and the augmentation of the supply of essential goods continued to be the main objectives of Government's policy, and the physical and **financial** measures already concerted to this end were further strengthened and extended during the year ; the visible approach of peace also damped hoarding and speculation, and assisted the authorities in maintaining a relative measure of stability in the economic **field**. The sustained campaign to stimulate savings, complete **immobilisation** of excess profits and " the **Pay-as-you-earn** " collections of income tax, on the one hand, and the extension of the Orders regulating the distribution and prices of vital supplies, the short and long-term measures to stimulate production and encouragement of a freer **flow** of imports, referred to earlier in this report, on the **other**, contributed to the improvement in the general economic situation. The continued use of this country as a major base of operations against Japan, however, involves further heavy demands on our resources and calls **for** steady vigilance and vigorous controls in order to prevent any deterioration in the stability so far achieved. Also, with the end of war in the Far East now clearly in sight, the implications in the monetary field of national and international economic policies, assume increasing significance and demand close study in relation to the large programmes of economic development and capital investment which are under preparation.

The United Nations Monetary and Financial Conference held at **Bretton Woods** in July last, at which India was represented by a Delegation which included the Governor of the Bank as a member and Dr. **Madan**, the Director of Research as its Secretary, **has recommended** the setting up of two international monetary institutions, *viz.*, an International Monetary Fund and an International Bank for Reconstruction and Development. The former is to deal with the problem of short-term equilibrium in international balances of payments with a view to promoting reasonable exchange stability and the balanced growth of international trade consistently with the freedom of member **countries** to pursue their own domestic social or political policies. The Bank is intended mainly to stimulate and, where necessary, to supplement the **flow** of international long-term capital for the purpose of assisting the reconstruction and development of member countries and the attainment of long-term international equilibrium. The two institutions are largely complementary in character and membership, membership of the Fund being necessary for admission to membership of the Bank. The relative share of countries in the subscriptions or share capital, the voting rights, and the management of the two institutions and the borrowing rights in the Fund (but not in the Bank)

is regulated by the quotas of members, the six largest quotas being assigned to the United States, the United Kingdom, the U.S.S.R., China, France and India, in order. The institutions will come into being not later than 31st December 1946 when countries representing not less than 65 per cent. of the quotas have signified adherence to the Articles of Agreements relating to them. The Agreements have been approved (20th July 1945) by the United States House of Representatives and Senate : the United States subscription is expected to represent the largest contribution to the real resources of the Fund and the Bank. Most other countries have postponed action pending acceptance of the Agreements by the biggest quota or share-holding countries. Once the agreements are ratified by the principal trading and financial countries, membership is likely to be more an advantage than otherwise to the smaller or industrially less advanced trading nations. The Conference rejected the demand of the Indian delegation for a partial multilateral **clearing** of the sterling balances through the machinery of the Fund, as the Fund was held to be incapable, owing to its limited resources, of dealing with a problem of such magnitude, and their settlement, therefore, remains a question for bilateral negotiations. India also failed to secure a larger quota and a permanent seat on the executive bodies of the two institutions, but her quota is large enough to assure her continuous election to the executive committees of both the Fund and the Bank.

The sterling assets of the Reserve Bank continued to increase, the net accretions during the accounting year being Sterling Assets. **Rs.420·39** crores as against **Rs.358·40** crores in the previous twelve months and **Rs.1,352·88** crores since the beginning of the war. The total holdings in the Issue and Banking Departments as on the 30th June 1945 amounted to **£1066·85** million or **Rs.1,422·46** crores, which are maintained in the form of cash and investments in short-term British Government securities renewed from time to time. The problem represented by these balances is not one of monetary transfer or exchange but of transfer of resources of an amount equivalent in value to the balances. On the Indian side it is, firstly, the problem of gauging and developing the capacity to absorb the flow of goods, particularly capital goods, from abroad, equivalent to the value of sterling balances, in industries and uses adapted to the requirements of demand, national needs and reasonable **efficiency** of production and, to this end, of speeding up the preparation of plans of development, private and Governmental, including the establishment of the conditions necessary for the creation and growth of industries. For the United Kingdom the problem is how best to establish either through direct trade with India **or** through trade with other countries the surplus of exports over imports necessary to meet the needs of India and the other creditors in addition to covering the gap in the balance of payments resulting from the loss of overseas investments and of income from these and other invisible exports.

Estimates of the quantum and form of goods required and of the capacity of the United Kingdom to **supply** these requirements or alternatively to make available foreign exchange for the purpose, should assist in framing the terms of a satisfactory settlement ; any such settlement must provide the assurance of a steady minimum **flow** of capital equipment essential for the already excessively retarded development of India's resources at a satisfactory rate, as well as a necessary measure of elasticity to take account of the many uncertain factors that will be at work on either *side*. In order, however, that the full benefits of the liquidation of sterling balances may be secured for the country, careful attention must at the same time be given to the formulation of an appropriate commercial policy involving consideration of tariffs, **necessary** priorities for imports and the direction of export trade and to the organisation of trade in certain sectors under official or private auspices, **with a** view to co-ordinating demand, regulating import costs and ensuring satisfactory terms of trade. The wide disparities in existing national price levels lend particular significance to these aspects of commercial policy on the eve of the resumption of freer and more extensive trading relations with the rest of the world.

By Order of the
Central Board of Directors,
C. D. **DESHMUKH**,
Governor.

APPENDIX

(a) *Scheduled Banks.*

- | | |
|---|--|
| 1. Ajothia Bank. | 43. Hooghly Bank. |
| 2. Allahabad Bank. | 44. Imperial Bank of India. |
| 3. American Express Co. Inc. | 45. Indian Bank. |
| 4. Andhra Bank. | 46. Indian Overseas Bank. |
| 5. Associated Banking Corporation of India. | 47. Indo-Commercial Bank. |
| 6. Banco Nacional Ultramarino. | *48. Indo-Mercantile Bank. |
| 7. Bank of Baroda. | 49. Industrial Bank of Western India. |
| 8. Bank of Behar. | 50. International Bank of India. |
| 9. Bank of China. | 51. Jwala Bank. |
| 10. Bank of Commerce. | 52. Karnani Industrial Bank. |
| 11. Bank of Communications. | *53. Kumbakonam Bank. |
| 12. Bank of Hindustan. | 54. Laxmi Bank. |
| 13. Bank of India. | 55. Lloyds Bank. |
| 14. Bank of Jaipur. | 56. Mahaluxmi Bank. |
| *15. Bank of Maharashtra. | 57. Mercantile Bank of India. |
| 16. Bank of Mysore. | 58. Nadar Bank. |
| *17. Bank of Nagpur. | 59. Narang Bank of India. |
| *18. Bareilly Corporation (Bank). | 60. Nath Bank. |
| 19. Bharat Bank. | 61. National Bank of India. |
| 20. Bengal Central Bank. | 62. National Bank of Lahore. |
| 21. Calcutta Commercial Bank. | 63. National City Bank of New York. |
| 22. Calcutta National Bank. | 64. National Savings Bank. |
| 23. Canara Bank. | 65. Nedungadi Bank. |
| 24. Canara Banking Corporation. | 66. Netherlands India Commercial Bank N.V. |
| 26. Canara Industrial & Banking Syndicate. | 67. Netherlands Trading Society. |
| 26. Central Bank of India. | 68. New Bank of India. |
| 27. Chartered Bank of India, Australia & China. | 69. New Citizen Bank of India. |
| 28. Comilla Banking Corporation. | 70. New Standard Bank. |
| 29. Comilla Union Bank. | 71. Noakhali Union Bank. |
| 30. Comptoir National D'Escompte de Paris. | 72. Oriental Bank of Commerce. |
| 31. Devkaran Nanjoo Banking Co. | 73. Oudh Commercial Bank. |
| 32. Dinajpore Bank. | 74. Palai Central Bank. |
| 33. Discount Bank of India. | 75. Pioneer Bank. |
| 34. Eastern Bank. | *76. Prabhat Bank. |
| 35. Exchange Bank of India & Africa. | *77. Pratap Bank. |
| *36. Gododia Bank. | 78. Punjab & Sind Bank. |
| 37. Grindlay & Co. | 79. Punjab Co-operative Bank. |
| 38. Habib Bank. | 80. Punjab National Bank. |
| 39. Hind Bank. | 81. Traders' Bank. |
| 40. Hindustan Commercial Bank. | *82. Tripura Modern Bank. |
| *41. Hindusthan Mercantile Bank. | 83. Union Bank of India. |
| 42. Hongkong & Shanghai Banking Corporation. | 84. United Commercial Bank. |
| | 85. United Industrial Bank. |
| | 86. Universal Bank of India. |

(b) *Burma Scheduled Banks.*

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

* Included in the second schedule during the year ended June 1945.