

RESERVE BANK OF INDIA

REPORT OF THE CENTRAL BOARD OF DIRECTORS FOR THE YEAR ENDED THE 30TH JUNE 1946

To be presented to the Shareholders at the Twelfth Annual General Meeting to be held on Monday, the 5th August 1946, at Madras in the Gokhale Hall, Armenian Street, George Town, at 4 p.m. (Standard Time).

1946.

colleague and a distinguished public servant endowed with character, competence and courtesy far above the average.

On the 20th November 1945, the Central Government nominated 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. K. G. Ambegaokar, I.C.S. Subsequently, on the 5th February 1946, Mr. V. Narahari Rao, C.S.I., C.I.E., was nominated under the same clause in place of Sir Cyril Jones.

Mr. C. R. Trevor, C.I.E., Deputy Governor, proceeded on four months' leave on the 15th April 1946, and the Central Government appointed Mr. W. T. **McCallum**, O.B.E., the Manager of the Bombay Office of the Bank, to officiate in his place in terms of section 12 (1) of the Act.

Mr. A. K. Ghose, an elected Director of the Central Board representing the Eastern (Calcutta) Area, resigned in April 1946 his office as a Director of the Central Board and also his office as a Member of the Local Board, consequent on his election to the Bengal Legislative Assembly.

The Directors representing the Western (Bombay) Area Local Board were due to retire on the 31st December 1945 under sub-section 4 of section 8 of the Act, and an election of the members of that Board was held in November 1945. Subsequently at a meeting of the elected members of the Local Board held in Bombay on the 20th December 1945, Sir Purshotamdas Thakurdas, K.B.E., C.I.E. and Mr. Kasturbhai Lalbhai were re-elected under sub-section 7 of section 9 of the Act as Directors of the Central Board to represent the shareholders of the Western (Bombay) Area Register.

During the year under report, six meetings of the Central Board were held, of which two were in Bombay and one each in Calcutta, Delhi, Lahore and Madras. The **Com-**mittee of the Central Board met forty-five times in Bombay, six times in Calcutta, four times in Delhi and **one** in **Madras**

As stated above, there was one Local Board election during the year in the Western (Bombay) Area in November 1945, preliminary to the election of the Directors for that area, and the new members of the Local Board assumed office in December 1945.

In the vacancy caused by the resignation in July 1945 of Diwan Bahadur Govindoss Chathoorbhoojadoss in the Southern (Madras) Area, the Central Board, following the recommendation of the Local Board, nominated on the 27th October 1945 Mr. Jagannathadaa Govindas to be a member of the Local Board of that Area in terms of section 12 (3) of the Act. On the 25th February 1946, in terms of the same section, the Central Board nominated Mr. **S. B. P. Pattabi Rama**

Rao, B.A., B.L., to be a member of the Southern (Madras) Area Local Board in the vacancy caused by the death in November 1945 of **Diwan Bahadur Thodla Raghaviah**, C.S.I.

In the Eastern (Calcutta) Area, in the vacancy which arose in March 1946, consequent on the election of Mr. H. D. **Townend** as a Member of the Council of State, the Central Board nominated on the 22nd April 1946 Mr. Alec Leslie Cameron, to be a member of that Local Board in terms of section 12 (3) of the Act.

Distribution of Shares between the various Areas. The following table indicates the trends in the distribution of the Bank's shares as between the different areas :

Distribution of shares as on the				
	1st April 1935.	31st Decem- ber 1936.	30th June 1945.	30th June 1946.
Bombay	1,40,000	1,89,838	2,33,272	2,36,321
Calcutta	1,45,000	1,31,423	1,21,755	1,24,629
Delhi	1,15,000	97,314	82,930	79,220
Madras :: :: ::	70,000	61,217	53,159	51,042
Rangoon	30,000	20,208	8,884	8,788
Total . . .	5,00,000	5,00,000	5,00,000	5,00,000

Number of shareholders as on the				
	1st April 1936.	31st Decem- ber 1936.	30th June 1945.	30th June 1946.
Bombay	28,000	22,342	17,449	17,368
Calcutta	23,890	15,571	10,764	10,690
Delhi	23,000	16,744	11,026	10,589
Madras	14,000	9,702	6,847	6,610
Rangoon	3,157	1,914	554	636
Total . . .	92,047	66,273	46,640	45,692
Average number of shares held by each shareholder	5·4	7·5	10·7	10·9

The total number of shareholders declined further during the year from 46,640 to 45,692. The number of shares on the registers of the Bombay and the Calcutta Areas continued to expand at the expense of the remaining Areas as in the previous year.

During the accounting year under review, no alterations were made in respect of paper, size, **colour**, etc., of notes of various denominations (including the Government of India one rupee notes) issued by the Bank.

In view of the inadequate supplies of silver, the prevailing high price of the metal in India and the obligation to return in kind within five years after the war the 226 million ounces of lend-lease silver borrowed from the United States between 1943 and 1945, the Government of India decided to discontinue the minting of the quaternary half and quarter rupee coins of one half **fineness**. By a notification dated the 23rd May 1946, the Central Government directed that half and quarter rupee coins of the same size and weight as the quaternary coins shall be minted in pure nickel. The design of the new coin is, however, different from that of the quaternary coin. The issue of quaternary rupee coin was also discontinued from June 1946.

As the nickel-brass alloy, which was adopted as a war-time expedient, has proved unsatisfactory for purposes of coinage, it was decided that further requirements of two **anna**, one **anna** and half **anna** coins should be minted in the cupro-nickel alloy used before the war. The new coins were first issued from the Calcutta and Bombay Offices of the Bank towards the end of January 1946 and from Lahore **Office** during March 1946.

Two Ordinances were issued on the 12th January 1946 demonetising **notes** of the denominational value of **Rs.500** and above with a view to checking 'black' market **operations** and tax evasions. The first Ordinance, *viz.*, the Bank Notes (Declaration of Holdings) Ordinance, 1946 required all banks and Government treasuries in British India to furnish to the Reserve Bank of India by 3 p.m. on the 12th January a statement of their holdings of bank notes of **Rs.100, Rs.500, Rs.1,000** and **Rs.10,000** as at the close of business on the 11th January 1946 while the second, *viz.*, the High Denomination Bank Notes (Demonetisation) Ordinance 1946, demonetised bank notes of the denominations of Rs. 500 and above with **effect** from the expiry of the 12th day of January 1946. In the interest of speedy exchange, a procedure was prescribed by which all holders of high denomination notes could get them exchanged for either Rs. 100 notes or bank credit on or before the 26th January 1946. By a press note issued on the 26th January, managers and **officers-in-charge** of offices and branches of the Reserve Bank were authorised to allow exchange of these notes, till the 9th February 1946 on production of **sufficient** and valid reasons for delay in the presentation of notes. The Governor and the Deputy Governor of the Bank were authorised to permit exchanges till the 26th April ; the power to permit exchanges thereafter was reserved for the Central Government.

Demonetisation
of High Deno-
mina t i o n
Notes.

The High Denomination Bank Notes (**Demonetisation**) Ordinance applied to British India only but its provisions were extended, with suitable modifications to the Administered Areas on the 22nd January 1946 and many Indian States also issued parallel Ordinances. States which did not enact such legislation were required to exchange their holdings of demonetised notes before the 7th March 1946. Out of a total of Rs.143.97 crores of high denomination notes in circulation on the **11th** January 1946, notes of the value of **Rs.109.67** crores were exchanged before the 26th January 1946, the total value of such notes exchanged up to the 39th June 1946 being **Rs.128.02** crores.

Details regarding the Government of India's proposal to decimalise the Indian Coinage system were mentioned in the last **Decimalisation of** year's Report. A bill incorporating the changes was **Coinage.** introduced in the Central Legislative Assembly on the 18th February 1946 ; it has been **circularised** to elicit opinion.

The Bank's Report on Currency and Finance for the **year** ended the 31st March 1946 was issued early in July 1946. **Publication of** The Report deals with the economic and **financial** **the Currency** conditions in the country and with Government **Report.** finances in greater detail than this Report, which is intended primarily to review the Bank's working during the accounting year.

With the end of the war in Europe and the East, problems of reconversion and relaxation of controls on the one **General Econo-** hand and of coping with the legacies of the war in **mic Conditions.** the shape of shortages and price and wage adjustments on the other faced the **country.** The tackling of the transition problem of replacement of India's over-worked industrial equipment and the launching of her long-range plans of reconstruction were delayed mainly on account of her inability to import capital goods. There was also an acute shortage of consumer goods, particularly in respect of textiles and food. Early in the year, cloth rationing was introduced in many urban areas, and provincial and state allocations were made in accordance with the supply position and the needs of various areas. Measures were also taken to step up the production of cloth, and the export of cloth was banned for a period of **2½** months from the 17th May 1946. The Famine Inquiry Commission's report outlined measures to be adopted for increasing production and improving the system of procurement and distribution of foodstuffs ; while **some** of these recommendations have still to be put into operation, the acuteness of the scarcity of food supplies has increased on account of the failure of the last monsoon in large tracts of the country and the consequent poor outturn of crops. A delegation of officials and non-officials visited the United **Kingdom** and the United States to press

India's case for **increased** food imports. While **8 certain** measure of relief **was** forthcoming from these imports, inadequate allotments and delays in shipments have continued to keep the **food** situation **precarious**. In the **monetary** field Government continued the policy of withdrawing surplus purchasing power through **8 vigorous loan** policy **and** the **small savings** campaign, while the reduction in public expenditure **and** a comparative improvement in the import position in respect of consumer goods have served to counteract the **inflationary** pressure to some extent. The Economic Adviser's general index number of wholesale prices (average of weekly figures) **fluctuated** between 242 **·2** and 247 **·1** between September **and** December 1945 and between **250·2** and 255 from **January** to **May** 1946. The food index **indicated an upward** tendency and rose from **236·6** in July 1945 to **244·6** in April 1946. The **Bombay** cost of living index rose from 240 in July 1945 to 249 in **May** 1946. The improved supply position during the early **part** of the **year**, particularly in respect of imports, **has** enabled Government to relax some of the **war-time** controls over distribution and movement of goods, though price controls continue to be **maintained**. A number of **articles** were removed from the purview of the Export Control **Notification** in November 1945. In December 1945 a wide **range** of articles **was** removed from the schedule to the Consumer Goods (Control of Distribution) Order 1945 **and** in January 1946 de-control was extended to **8** number of imports under the new Open General Licences. Problems of demobilisation **and** resettlement of ex-servicemen and war workers engaged the attention of Government who opened **8** number of employment exchanges widely distributed over the country and set **up** **8** Directorate of Resettlement and Reemployment. Arrangements were also made for prerelease training for servicemen at various **military** centres. Government **have** appointed an Interim **Tariff Board to investigate** the claims of industries **started** or developed during the war period for protection and have decided to maintain the *status quo* in regard to protective duties on **sugar**, wood pulp paper, cotton **and** silk **manufactures**, etc., under the Protective Duties (Continuation) Act, 1946. Government have also taken power under the Protective Duties Act, 1946 to impose additional duties, by executive action in **cases** where **8** recommendation to that effect is made by the Interim Tariff **Board**. According to an agreement between India and the United States of America, for the **final** settlement in respect of lend-lease, all obligations arising out of lend-lease and reverse lend-lease were cancelled, except the obligation to return in kind to the United States the lend-lease silver amounting to 226 million **ounces received** by India during the war, provision having been **made** in regard to the disposal of surplus stores in India. **Apart** from these **measures** several interim and long-term **plans** have also been evolved and are awaiting execution. The provinces were called upon by the Central Government to furnish by the middle of December a list of development schemes that could be executed immediately **and** of these, schemes costing about **Rs.80 crores** have been selected to be completed by the 31st March 1947 as far as possible. With **8** view to assisting the execution of these schemes the Central

Government have agreed to make advance grants **upto Rs.35** crores to be adjusted against final grants to be allocated to the provinces for post-war developments and **also** to make loans **upto Rs.15** crores. Of the 29 Industrial Panels set **up** by Government in **1945**, those of textiles, cement, sugar and vegetable oils have submitted their reports. About 600 candidates have been selected for the Central and Provincial Government scholarships in 1945 for training overseas, The Capital Issues Control Order was relaxed first in August 1945 and later **again** in December 1945, raising the limit of exemption to **Rs.5** lakhs. Plans for the establishment of an Industrial Finance Corporation are in an advanced stage, and the planning of investment with a view to securing the maximum utilisation of the country's resources is under examination. The **Labour** Department has prepared a housing scheme for industrial workers envisaging erection within a period of 10 years of some 2 million dwellings for workers, and the scheme provides for a subsidy **upto 12½** per cent. by the Centre to local bodies and industrial employers who would undertake the construction of such houses, provided the Provincial Governments concerned also agree to make an equivalent grant. The scheme is expected to involve an expenditure of approximately Rs. 40 crores during the next two years. The all-India Health Survey Committee's report outlined a lo-year **plan** at an estimated cost of **Rs.1,000** crores.

Commodity prices in the early part of the year recorded a decline as reflected in the movement of the Economic Adviser's index number of wholesale prices. This **Commodity Prices.** **was** due partly to an improvement in the supply position of some of the imported products. There was also the expectation that as a result of the visit of the Hydari Mission larger imports of consumer goods and limited imports of capital goods would be rendered possible towards the end of 1945 and in a larger degree in 1946. There was in addition an increase in the share allocated to civilian use of such articles as cement, iron and steel, hardware, electric fans, bulbs, etc. On account of these factors, control over distribution regulated by the Consumer Goods (Control of Distribution) Order and other specific Orders was removed in respect of a large number of commodities. With a view to encouraging imports of essential goods in short supply, the Open General **Licence**, instituted in March 1945, was extended in January 1946 to cover additional articles. Reductions in official prices were effected in regard to a number of goods including textiles. With some improvement in the transport situation, regulations governing the issue of certificates of priority for internal movement of goods by railways were liberally modified.

The latter part of the year, however, witnessed a reversal of this trend and an upward movement in the index number, mainly owing to a rise in the prices of agricultural commodities and the persisting shortage of certain essential articles such as sugar, cereals and cloth in regard to which the supply position deteriorated during the period.

The Economic Adviser's general index number of wholesale prices (week ended the 19th August 1939 = 100), stood at 246.3 in July 1945 and receded to 241.5 in August but thereafter rose steadily to 255.3 in May 1946. With the exception of 'Raw Materials', which reacted from **212.0** in July 1945 to **205.4** in March 1946, all the other groups followed the trend in the general index. The index for 'Agricultural Commodities', which had declined from 272.5 in July 1945 to 262.3 in August touched the highest level at **299.3** in May 1946. The downward trend noticed in 'Raw Cotton', since 1944 continued for the first four months of the year under report, the index falling from 133 in July 1945 to 175 in October but rose to 187 in November, while 'Raw Jute' witnessed no change throughout the period. 'Manufactured Articles' **steadily** declined from **243.5** in July 1945 to **235.2** in December and stood at 239.9 in May 1946. 'Cotton Manufactures' advanced slightly to 277 in July 1945 and remained at that level till October but reacted to 262 in December, where it remained till March 1946; 'Jute Manufactures', after a temporary recession between October 1945 and January 1946, returned to their original level in March 1946; the index number after declining from 256 in April 1946 to 243 in November, rose to 256 in March 1946. The Economic Adviser's Food Index (base: last week of August 1939 = 100) a new series compiled since February 1944, showed a steady rise from **234.2** in June 1945 to **244.8** in March 1946, but fell to 242.6 in May.

Following the cessation of hostilities, the Government of India undertook measures to liberalise their import and export controls so as to secure for the country a larger flow of imports from the sterling area and the maintenance at a high level of exports developed during war-time. As a result, the foreign trade of India showed a substantial expansion, the aggregate value of **seaborne** trade in private merchandise during the nine months ended March 1946 being Rs. 389.49 crores or Rs. 58.31 crores more than the corresponding figure for the previous year. Roughly, about a third of the increase was accounted for by a rise in imports. The total value of imports went up by about 13 per cent. from **Rs. 156.63 crores to Rs. 177.39 crores**. Exports recorded a much greater increase than imports, their total value showing an improvement of 22 per cent. from Rs. 174.55 crores to Rs. **212.10 crores**. The balance of trade in private merchandise showed an appreciable improvement at Rs. **34.71 crores** as against **Rs. 17.92 crores** for the corresponding period of the previous year. The figures for the first nine months show a marked increase in imports, under "Manufactured Articles" which increased from **Rs. 48.99 crores to Rs. 75.30 crores** and a slight increase under 'Food, drink and tobacco' which improved from Rs. **15.57 crores to Rs. 17.61 crores**, while there was a decline under 'Raw Materials' by **Rs. 8.92 crores to Rs. 81.02 crores**. There was a distinct rise in exports under 'Raw Materials' from Rs. 47.59 crores to Rs. 69.04 crores; under 'Food, drink and tobacco' from Rs. 41.68 crores to

Rs. 51.77 crores ; and a small rise under ' Manufactured Articles ' from Rs. 82.51 crores to Rs. 86.81 crores.

In the rupee-sterling exchange market, banks' quotations for telegraphic transfers remained unchanged throughout the year at lsh. 5-31/32d. selling and lsh. 6-1/32d. buying. As a result of further improvement in the mail communications between India and the United Kingdom, the exchange banks, on the 9th November 1945, lowered their buying rates for demand and usance bills upto 60 days sight for both ready and forward delivery by 1/32d. and for bills drawn at 3 and 4 months sight by 1/16d. At the same time, they extended their ready buying rates to cover deliveries upto 4 months forward. Banks continued to buy telegraphic transfers from the public for delivery upto 9 months ahead and demand and usance bills upto 6 months. During the year, the shortage of sterling for ready delivery continued and in view of the rising level of imports into India, the Reserve Bank of India advised banks, in April, that they would be prepared to sell sterling at lsh. 5-63/64d. for ready delivery without limit and without any stipulations. The Bank continued to purchase sterling for delivery upto 6 months at lsh. 6d. and the net purchases* during the year amounted to £71,609,176-9-2 as compared with X57,226,253-10-10 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 £130,380,000 at the end of the year as against £240,195,000 at the end of the previous year.

The termination of the war did not result in any change in the existing system of Exchange Control ; India remained a member of the sterling area and restrictions on the sales of currencies of countries outside the sterling area were continued.

Financial and monetary agreements were completed between the United Kingdom and certain European countries, which were extended to cover the transactions of the entire sterling area. This resulted in the resumption of financial and commercial transactions between India and countries in northern and western Europe which had been occupied by the enemy. Remittances to these countries were subject to the usual Exchange Control regulations applicable to countries outside the sterling area.

* These represent the balance of purchases under both ready and forward contracts over sales including amounts cancelled in respect of forward purchases. Figures of net purchases published in earlier Reports represent excess of deliveries under ready and/or forward contracts over sales.

The U.S. dollar continued to be a difficult currency, the desirability of conserving dollar exchange being emphasized by the cessation of lend-lease supplies in September 1945. There were, therefore, no relaxations in the degree of control over financial transactions with the united states.

The only general relaxation in the Exchange Control restrictions **was** a more liberal policy adopted towards foreign travel. Facilities were freely given to business-men for travel overseas, provided they could satisfy the Government of India as to the necessity for their journeys and in addition small allotments of exchange were granted **to** persons wishing to travel for personal reasons to enable them to go on short visits to foreign countries.

After the re-occupation of Burma, the Government of India amended the **Defence** of India Rules so as to permit financial transactions to take place freely between the two countries, which resulted in the formation once again of the Indo-Burma monetary block.

The upward tendency noticed in the bullion market from December 1944 was further accelerated during the year under review. The major factors influencing the trend in the market were the continued paucity of stocks, the pressure of idle funds and the meagre prospects of imports of precious metals ; and sentiment was also affected bullishly by the upward revisions of silver prices both in the United States and the United Kingdom with prospects of further rises. The market's reaction to the cessation of hostilities was only temporary and the discontinuance of official sales of silver from the 4th July 1945 and of gold from the 15th August, was followed by manipulations by bulls who continued to exploit the steadily deteriorating technical position in the market.

A general upward tendency was witnessed from June to **mid-** August when, following the surrender of Japan, the market reacted temporarily. The ready quotations of silver and gold, which had risen from **Rs.132-4-0** and **Rs.77-8-0** respectively on the 30th June 1945 to **Rs.139-6-0** and **Rs.79-14-0** by about the middle of July, dropped to **Rs.118-0-0** and **Rs.63-6-0** on the 27th August and the 22nd August respectively, being the lowest levels reached during the year. The bullish tendency, however, reasserted itself soon. From October onwards, there were, however, some temporary recessions, early in December 1945 following the announcement of the conclusion of the Anglo-American Loan Agreement, at the beginning of March 1946 as an immediate reaction to the announcement of an additional import duty on silver and a new import duty on gold, and again in mid-April following reports regarding the discovery of a rich gold mine in South Africa and renewed **rumours** regarding a possible resumption by the Reserve Bank of India of the sale of gold. Barring these temporary declines, the quotations of silver and gold showed an almost continued

rise, soaring to successive new high levels until they touched record levels **at** Rs.195 and **Rs.111** respectively on the 25th May 1946. Towards the close of the **year**, the bullish fervour appeared to have received 8 set-back, and the quotations showed 8 decline from the levels reached earlier, as a result of selling pressure **influenced** partly by reported heavy arrivals of silver coins from upcountry and **partly** by a more optimistic view **regarding** the possibilities of importing silver from **abroad**. The closing quotations of the year, however, were appreciably higher than at the close of **last year** ; ready silver **and ready** gold closed at **Rs.** 172-2-0 and Rs. 105-2-0 respectively as against **Rs.132-4-0** and **Rs.77-8-0** on the 30th June 1945.

In the gold section, in view of the acute shortage of stocks **8s** **against** the unprecedented demand which followed the promulgation of the High Denomination Bank Notes (**Demonetisation**) Ordinance of the 12th January 1946, the Bombay Bullion Exchange authorities had **to** prohibit forward business in that section with effect from the **30th** January 1946. In the silver section also, forward business **came** to a **standstill** from the 6th March, owing to the disinclination on the part of operators to enter into commitments, pending the Bombay High Court's decision in regard to the buyer's liability for the payment of the new duties on precious metals imposed in the Central budget for **1946-47**. Following the removal by the Central Government on the 25th February 1946 of the restrictions on forward **trading** imposed by Rule 90C of the **Defence** of India Rules, the Bombay Bullion Exchange **authorities** decided to resume forward trading in bullion as from the 18th **March** 1946, although forward business in silver could **actually** be resumed only with effect from the 29th March and in gold with effect from the 16th April. From the 11th May **again**, **8s 8** result of the increasing disparity between the soaring ready rates, **and** the maximum forward rates as fixed by the Board, forward business remained suspended in both the sections until it **was** resumed in the silver section with effect from the 17th June and in gold with effect from the 20th June.

In pursuance of their cheap money policy, the Central Government continued to **float** loans during the year at progressively lower effective rates of interest. Owing to keen and sustained demand on the part of institutional investors **and** the market in general, the new loans as well as fresh issues of old loans were generally well received and contributed to the firmness of the gilt-edged market.

On the 2nd July, Government created a special issue of **Rs.30** crores of the existing 3 per cent, First Development Loan **1970-75** which had been floated in April 1945 ; two further **issues**, one for **Rs.25** crores **and** the other for **Rs.20** crores, of the same loan were created on the 15th November 1945 and the 15th **February** 1946 respectively, the latter continuing to be available on tap **upto** the 16th March 1946.

On the 16th July 1945, Government floated a new loan, viz., the $2\frac{1}{2}$ per cent. Bonds of the face value of **Rs.20** crores repayable at par on the 16th July 1950. A special issue of Rs.15 crores of this loan, created on the 12th October 1945, was made available on tap upto the 16th February 1946. On the 29th September 1945, the creation of a further (fifth) issue of Rs.25 crores of the existing 3 per cent. Loan 1963-65 was announced. On the 8th December 1945 Government announced the discontinuance of the sales of the Government of India Five Year Interest-Free Prize Bonds, total subscriptions to which since their issue on the 15th January 1944 aggregated **Rs.5.30** crores. The 3 per cent. Second Victory Loan 1959-61, which had been on tap since the 19th March 1945, was also closed on the 15th December, the total subscriptions amounting to **Rs.113.74** crores. On the 15th January 1946, a new medium-dated $2\frac{3}{4}$ per cent. Loan 1960 for Rs.25 crores was floated at par, an additional issue of **Rs.20** crores being made available on tap from the 9th April to the 20th May 1946. The total amount raised during the accounting year through all new issues and sales of loans on tap was **Rs.257.11** crores.

The outstanding event of the year was the announcement by Government on the 24th May of their decision to repay on the 16th September 1946 all the outstanding $3\frac{1}{2}$ per cent. undated Rupee Paper, amounting at the end of May to approximately Rs.272.90 crores. Holders of this scrip have been given the option to convert their holdings into two new loans, namely, the 3 per cent. Conversion Loan of 1946, redeemable not earlier than the 16th September 1986, to be issued at par and a $2\frac{3}{4}$ per cent. Loan to be issued at Rs.99 for every **Rs.100** nominal, repayable at par on the 16th September 1976, to both of which cash subscriptions have not been invited.

The 5 per cent. (tax-free) Loan 1945-55 fell due for repayment on the 15th October 1945 ; and of the balance of Rs.37.86 crores outstanding as at the end of September 1945, Rs.35.95 crores were repaid upto the end of June 1946.

Three Provincial Governments, viz., Madras, the Punjab and the United Provinces floated simultaneously on the 12th September 1945, loans of the aggregate value of **Rs.8.50** crores at a uniform issue price of **Rs.99-8-0** for every **Rs.100** nominal, bearing interest at 3 per cent. per annum and repayable at par on the 14th September 1960. While the loans floated by Madras and the Punjab were intended to finance productive capital expenditure, that of the United Provinces was for repayment in part of its consolidated debt to the Central Government, carrying a higher rate of interest.

As during the last accounting year, repatriation operations during the year under review were confined to repayment of repatriated stocks not surrendered earlier, the amount thus repatriated being **£177,614**. This reduced the outstanding amount of sterling debt at the end of

Repatriation of Sterling Debt.

June 1946 to **£10.38** million (excluding the liability for British Government 5 per cent. War Loan (1929-47) taken over by India as part of the **contribution** for the last war). Rupee counterparts created during the year amounted to only **Rs.83,719**. The aggregate sterling liabilities redeemed since repatriation first began in 1937 **upto** the end of June 1946 are **£323.14** million.

The gilt-edged market registered a marked improvement during the accounting year under review, the Economic Indian Securities Market. Adviser's index number of Government Securities (1927-28 = **100**) averaging higher at **119.0** during the eleven months ended May 1946 as compared with **117.9** during the corresponding period of the preceding year. The prevailing plethora money conditions continued to impart a **firm** tone to the gilt-edged market. The year commenced with security prices rising on good speculative buying support and investment demand. Except for temporary set-backs in August, following the Japanese surrender, and in December, the quotations showed a continuous improvement. During the second half of the year, except during May, when a slight recession in prices took place, the trend was distinctly bullish, specially in the long-dated section, the year-end quotations of most of the loans being substantially higher than those at the close of the previous year. The rise in prices with a consequent lowering of yields indicates the market's reaction to Government's cheap money policy.

The **3½** per cent. undated Paper, which had closed at **Rs.101-10-0** on the **30th** June 1945, steadily improved to **Rs.102-13-0** on the 13th July, but declined to **Rs.100-6-0** on the 22nd August on the termination of hostilities. From the end of August, except for a minor set-back in December, it rose steadily to touch **Rs.104-0-0** on the 8th January 1946. However, on **rumours** of repayment, a sagging tendency set in and the quotation declined to **Rs.102-0-0** on the 22nd March. During the last quarter of the year, except for **the** sharp drop to **Rs.102-0-0** on the announcement of its repayment on the 24th May, a **definitely** upward tendency was in evidence, the **3½** per cent. Government Paper closing for the accounting year at the record price of **Rs.105-3-0** on the 29th. The 3 per cent. undated Rupee Paper, which had closed at **Rs.93-7-0** on the 30th June 1945, rose to new heights every month, touched par on the 22nd March 1946 for the first time since the **22nd** July 1896 and closed for the year at **Rs.105-0-0**. On the 12th February 1946, the 3 per cent. Loan 1963-65 touched par, followed by the 3 per cent. Funding Loan 1966-68 and the 3 per cent. First Development Loan 1970-75 on the 28th February and the 5th March respectively. These three scrips closed for the year at **Rs.104-15-0**, **Rs.104-15-0** and **Rs.105-7-0** respectively as against **Rs.99-2-0**, **Rs.98-0** and **Rs.97-0-0** at the end of June 1945. The short-dated securities registered the smallest gains during the year ; the medium-dated responded more satisfactorily, while the long-dated and non-terminable securities

recorded the largest gains, the 3 per cent. and the 39 per cent. undated Paper showing increases of Rs.11-9-0 and **Rs.3-9-0** respectively. Sales on tap by the Bank at successively rising rates also contributed to the improvement in quotations, as in the case of the 3 per cent. First Development Loan **1970-75** which rose from **Rs.97-0-0** on the 26th April 1945 to **Rs.105-7-0** at the end of June 1946. Almost all loans touched new high levels during the year, indicating the sustained interest of the public in gilt-edged.

The scheme for the conversion of Promissory Notes into Stock Certificates and vice versa (both free of charge), introduced during 1942, continued to be in operation during the year. The amount of conversions and reconversions respectively came to **Rs.36.75** crores and Rs. **16.84** crores during the year ended June 1946, the **corresponding** figures for the period beginning with the 1st **March** 1942, when the scheme was introduced, **upto** the end of June 1946 being **Rs.317.90** crores and **Rs.72.82** crores. Institutional investors continued to avail themselves of the facility extended by the Bank since March 1942 for holding securities in Subsidiary General Ledger Accounts. At the end of March 1946, **39.53** per cent. of the total rupee debt was held in such accounts.

Except for occasional set-backs, the industrial share market displayed strength and buoyancy, with prices ruling much higher than during the preceding year. The Industrial Share Market. Economic Adviser's general index number of prices of variable yield securities (1927-28 = 100) for the eleven months ended May 1946 averaged higher at 233.4 as against 198.5 in the corresponding period of the previous year. With the exception of cements, all the shares have risen in value, the advances ranging from **34.5** per cent. in the case of jute and paper shares to **3.6** per cent. in the case of sugar shares.

The upward movement of prices which developed towards the end of the previous year was accelerated by the middle of July, strengthened by the issue of the $2\frac{1}{2}$ per cent. Loan 1950. A **set-back** in mid-August was noticed following the end of the war, though the reaction was much less than was feared, and the Economic Adviser's general index receded from 217 to 212.6. The upward trend, however, reasserted itself and during the next three months the market witnessed a steady rise, the general index moving up to **214.9** in October. Towards the end of November a "**boomlet**" developed and persisted till the end of January 1946, the index rising to 238.6. Following a subdued undertone in February, share prices again marched upward, stimulated partly by the proposals in the Central budget for the year 1946-47 (and in particular that for the total abolition of the Excess Profits Tax) and later by the announcement of the redemption and the offer for conversion of the 39 per cent. undated Rupee Paper. The

Economic Adviser's index for May 1946 stood at **267·3** as compared with **207·3** for June 1945.

The group of fixed yield industrial securities reveals a similar tendency, the Economic Adviser's index for these rising steadily from **183·5** in June 1945 to **195·9** in May 1946.

Contrary to expectation, the end of the war with Japan left the money market in India unperturbed and the **financial** Money Market. markets were comparatively buoyant during the year under review. Funds were abundant on the short-term money market with the result that the call money rate amongst the larger banks in Bombay continued to be quoted around $\frac{1}{4}$ per cent. during the major part of the year. The increased trade and stock exchange demand for accommodation, however, improved the rate which fluctuated between $\frac{1}{4}$ and $\frac{1}{2}$ per cent. after the 1st February and later remained stationary at $\frac{1}{2}$ per cent. during April, May and June. The three and six months' fixed deposit rates offered by these banks improved from $\frac{1}{2}$ — $\frac{3}{4}$ per cent. and $\frac{3}{4}$ —**1** per cent. respectively at the end of June 1945 to $\frac{3}{4}$ —**1** per cent. and **1**— $1\frac{1}{4}$ per cent. early in January 1946 and continued unaltered thereafter at these levels. The twelve months' rate was almost steady at $1\frac{1}{4}$ — $1\frac{1}{2}$ per cent. during the first half of the year. Early in January 1946, however, the rate improved to $1\frac{1}{2}$ — $1\frac{3}{4}$ per cent. on increased seasonal demand for funds and from March remained steady at $1\frac{1}{4}$ — $1\frac{3}{4}$ per cent. 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 Act rose from 86 to 93. (The names marked with an asterisk on the list of scheduled banks appended to this Report indicate the additions to the schedule during the year). The usual inspection before inclusion was dispensed with in the case of 3 banks which appeared *prima facie* to satisfy the conditions laid down in section **42(6)** of the Reserve Bank of India Act. The other four were admitted to the schedule after an investigation of their affairs. Applications from 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 96.

The inspection of scheduled banks to test their eligibility for retention in the second schedule continued to be carried out, and two banks in the Eastern (Calcutta) Area and one bank in the Western (Bombay) Area were inspected for this purpose. Of these banks, two from the Calcutta Area were found to be eligible for retention in the schedule after reinspection.

The table given below compares the position of scheduled banks as on the 29th June 1945 and on the 28th June 1946.

(In thousands of rupees)

	29th June 1945.	28th June 1946.	Difference + or —
1. Demand Liabilities in India . .	6,29,44,42	7,08,85,56	+ 79,41,14
2. Time Liabilities in India . .	2,39,13,45	3,11,48,04	+ 72,34,59
3. Cash in hand in India . .	36,87,00	47,43,36	+ 10,56,36
4. Balances with the Reserve Bank	78,85,80	1,03,64,91	+ 24,79,11
5. Advances in India	2,79,74,26	3,54,49,60	+ 74,75,34
6. Bills discounted in India . .	13,61,91	19,84,36	+ 6,22,45

During the year under review, the total demand and time liabilities of scheduled banks maintained an upward trend, rising from **Rs.868.58** crores on the 29th June 1945 to **Rs.1,020.34** crores on the 28th June 1946. The proportion of demand to total liabilities which was still high at 72.47 per cent. on the 29th June 1945 declined as in the previous year to 69.47 per cent. The percentage of cash in hand and with the Reserve Bank slightly improved from 13.33 at the end of June 1945 to 14.81 by the end of June 1946 reflecting the desire for increased liquidity on the part of banks. The balances maintained by scheduled banks with the Reserve Bank at the end of the accounting year were higher at **Rs.103.65** crores as compared with Rs.78.86 crores at the end of the previous year, the excess over the statutory minimum rising from Rs.42.60 crores to **Rs.61.98** crores. The increased deposits with the Reserve Bank were maintained by the scheduled banks as a part of the preparations against a possible demand for funds in the post-war period. Advances by scheduled banks during the year further rose to Rs.354.50 crores on the 28th June 1946 as against Rs.279.74 crores on the 29th June 1945. The expansion in the volume of bank advances was due partly to increased trade activity, to increased facilities granted against securities and shares and partly due to the **immobilisation** of funds in commodities on account of the shortage of wagons and transport. The proportion of advances and bills discounted to total demand and time liabilities improved from 33.77 per cent. on the 29th June 1945 to 36.69 per cent. on the 28th June 1946.

Despite easy money conditions prevailing during the major part of the year, twelve banks including two co-operative banks approached the Reserve Bank of India under section 17(4)(o) of the Reserve Bank of India Act for financial accommodation, the total amount of loans granted to these banks being **Rs.330.96** lakhs as compared with **Rs.103.25** lakhs advanced to four banks during the previous year.

The total number of offices of the scheduled banks including head offices, branches, pay offices, etc., rose further from 2,715 on the 30th June 1945 to **3,106*** on the 30th June 1946, an increase of **391*** against 574 in the previous year. The banks newly included **in** the schedule accounted for an addition of 91 offices. Seventy-three new offices were opened at places which were not previously served either by a scheduled or a non-scheduled bank with capital and reserves of over **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 631 at the end of 1945 as compared with 613 at the end of 1944. Their total demand and time liabilities increased from **Rs.53.13** crores at the end of 1944 to **Rs.67.31** **crores** at the end of 1945, the ratio of cash to total demand and time liabilities improving from **11.4** per cent. to **12.0** per cent. during the same period.

During the course of the year, six non-scheduled banks and one indigenous banker were included in the list of banks approved for concession rates for remittances under Appendix III of the Reserve Bank's Scheme of Remittance Facilities introduced in October 1940. Two banks were excluded from the list as they were admitted to the second schedule to the Reserve Bank of India Act and were made eligible for better remittance facilities. The total number of non-scheduled banks and indigenous bankers in this list was 82 and 5 respectively at the end of the year as compared with 78 and 4 at the end of the last year.

As mentioned in the last year's Report, the non-scheduled banks were given the additional facility of opening accounts with the Reserve Bank of India with effect from the 15th February 1945. In response to the circular letter, embodying the terms and conditions, addressed in December 1944 to all the non-scheduled banks in British India, **13** applications for opening accounts were received during the year against 33 applications received last year. Of these, 2 applications were accepted, 7 were rejected and 4 are pending **final** disposal as the banks are asked to apply for inclusion in the second schedule.

The publication of the Statistical Tables relating to Banks in India and Burma covering the year 1944, suspended as a measure of paper economy is proposed to be resumed and a combined issue is to be brought out shortly covering the years 1944 and 1945.

The balance sheet of the Bank as on the 30th June 1946, together with the profit and loss account, has been supplied separately to the shareholders. To facilitate **com-parison**, the profit and loss account figures for the preceding two years have also been incorporated.

* **Provisional.**

The upward trend in the total of the balance sheet of the Issue Department, witnessed since the outbreak of the war continued during the year, the total of **Rs.1,254·08** crores as at the end of the accounting year under review showing an increase of **8·9** per cent. over the figure as on the 30th June 1945.

On the liabilities side, notes in circulation stood at **Rs.1,236·87** crores giving an increase of **Rs.99·40** crores as compared with an increase of **Rs.206·10** crores during the previous accounting year. The rate of currency expansion which had tended to slow down since July 1945, was again marked up from October until the beginning of 1946, after which the expansion of currency seems to have received a check. The High Denomination Bank Notes (**Demonetisation**) Ordinance issued on the 12th January 1946, had a regressive effect on currency expansion, the average of the notes in circulation in February 1946 being actually down by **Rs.25·48** crores compared with the previous month's figure.

On the assets side, "Gold coin and bullion" continued unchanged at **Rs.44·42** crores at the statutory rate of valuation, namely, **Rs.21·3-10** per tola. Sterling securities, however, continued to rise from **Rs.1,034·33** crores to **Rs.1,135·33** crores on receipt 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 **94·07** against **93·66** at the close of the previous year. "Rupee coin" which includes Government of India one rupee notes increased from Rs.15.20 crores to **Rs.16·50** crores at the end of June 1946. The Bank received from the Central Government Rs.15 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 to **Rs.57·84** crores on the 30th June 1945, remained unchanged at that level throughout the accounting year under review.

The total of the balance sheet of the Banking Department increased by **45·09** per cent. rising from Rs.425.89 crores to Rs.617.94 crores during the year under review. This Operations of the Banking Department. rate of increase in the total of the balance sheet was, however, smaller than that of 111 per cent. in the previous accounting year, mainly owing to a lower percentage increase in "Central Government deposits" and in "Balances held abroad" on the liabilities and assets sides respectively.

The deposits of the Central Government increased by Rs.179.47 crores to **Rs.457·43** crores. The deposits of banks fluctuated widely between **Rs.67·56** crores for the week ended the 21st December 1945 and Rs. **115·10** crores for the week ended the 1st February 1946. On the 11th January the deposits of banks stood at **Rs.77·66** crores but as a result of the issue of the High Denomination Bank Notes

(**Demonetisation**) Ordinance on the 12th January 1946, they swiftly rose to **Rs.115·10** crores on the 1st February 1946, but declined subsequently to **Rs.73·95** crores on the 22nd March 1946, mainly due to seasonal demand and tax payments and stood at **Rs.109·47** crores at the end of June 1946. On the assets side, "Balances held abroad" increased, though at a reduced rate, by **Rs.170·94** crores from Rs.388·13 crores to **Rs.559·07** crores and "Investments " by **Rs.9·34** crores from Rs.21.45 crores to Rs.30.79 crores.

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

Agricultural Credit Department. The Department continued to study the problems connected with the co-operative movement, land mortgage banks, marketing, agricultural credit, etc. with special reference to the post-war period.

The services of the Department were, as in previous years, utilised by co-operative banks, Registrars of Co-operative Societies and Governments.

A reference was made in the last Report to the appointment of the Chief **Officer** of the Department as member-secretary of the Agricultural Finance Sub-Committee and the Co-operative Planning Committee. The reports of the two committees were submitted to the Government of India during the year.

A credit limit was sanctioned to one Provincial Co-operative Bank against bills or promissory notes drawn for financing seasonal **agricultural** operations or the marketing of crops at a special concession rate of **1½** per cent. below the Bank **Rate**. Another Provincial Co-operative Bank was granted accommodation against Government securities at the Bank Rate.

Owing to the continued increase in the work of the Banking Section of the Agricultural Credit Department and with a view to providing the administrative machinery **that** would be necessary to undertake the several duties and responsibilities especially in the matter of receiving returns from banks, inspection and liquidation, which will devolve upon the Reserve Bank when the Banking Companies Bill (**L.A.** Bill No. 28 of 1946) becomes law, the banking section was **organised** into a separate department of the Central **Office**, styled as the Department of Banking Operations from the 1st August 1945. This Department deals with all problems relating to the scheduled and non-scheduled banks, such as fixing credit limits for the scheduled banks, carrying out on behalf of the Central Government inspections of banks applying for inclusion in the second schedule and of those which *prima facie* appear to be unsuitable for retention in the schedule, studying the balance sheets and other returns submitted by banking companies, rendering advice on banking and financial matters to banks and Governments, banking legislation, etc. Lately the Department has also been **carrying** out inspections of banking companies

as directed by Government under the provisions of the Banking Companies (Inspection) Ordinance, 1946. A brief account of the more important work done by the Department is given in the subsequent paragraphs. Arrangements to provide the necessary additional staff for the new Department are in progress.

It was mentioned in the last year's Report that the Central Legislative Assembly adopted a motion on the 11th April 1945 for reference of the Banking Companies Bill to a Select Committee which was scheduled to meet in October 1945 and that it **was** the intention at that time to take up the Bill for final consideration in the autumn session of the Legislature. Owing, however, to the decision of His Excellency the Governor-General to hold fresh elections and the consequent dissolution of the Assembly, the proposed meetings of the Select Committee were cancelled and the Bill lapsed. A revised Bill was introduced in the budget session of the new Assembly on the 15th March 1946 and a motion to refer the Bill to a Select Committee was approved by the House on the 11th April 1946. Opportunity has been taken to incorporate in the revised Bill such changes as were considered necessary in the light of the opinions and criticisms received from the public on the circulation of the original Bill and recent developments in Indian banking.

On the 15th January 1946, the Government of India promulgated an Ordinance called the Banking Companies (Inspection) Ordinance, 1946 under which the Central Government is empowered to direct the Reserve Bank to undertake an inspection of the books and accounts of any banking company and to report thereon to the Central Government. If, after considering the Reserve Bank's report of inspection the Central Government is of the opinion that the bank's affairs are being conducted to the detriment of the interest of its depositors, they may prohibit the bank from receiving fresh deposits or, notwithstanding anything contained in section 42 (6) of the Reserve Bank of India Act, refuse its inclusion in the second schedule or, if it has already been so included, direct its exclusion from the schedule. The Ordinance further prescribes penalties for contravention of certain provisions of the Ordinance on the part of the banking company and empowers the Central Government to publish the whole or any part of the inspection report of the Reserve Bank after giving reasonable notice to the banking company concerned.

The Banking Companies Bill contains these and other provisions designed to ensure the working of banks on sound lines, but it will take some time before the Bill is placed on the Statute Book. The Ordinance has therefore been passed to bring into immediate effect the provisions regarding inspection and will be operative until the enactment of the Banking Companies Bill.

**Banking Legisla-
tion.**

**The Banking
Companies
(Inspection)
Ordinance,
1946.**

Two scheduled banks have so far been inspected under the Ordinance; the Government of India have passed an order on one bank, in terms of section 5 of the Ordinance, prohibiting it from receiving fresh deposits at any of its offices, branches and agencies, with effect from the 17th June 1946. One more bank, which was inspected during the year for the purpose of testing its eligibility for retention in the second schedule, is now being re-inspected under the Ordinance. The financial position and methods of business of other banks, both scheduled and non-scheduled, are being examined with a view to finding out whether any action is required under the provisions of the Ordinance.

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 1,129 applications of which 864 relate to banking and 265 to insurance companies.

In August 1945, the Government of India relaxed the restrictions imposed under the Defence of India Rule 94A by granting exemption for the issue of capital upto a limit of Rs. 1 lakh in any one year except to banks, insurance companies and provident societies registered as companies; the restriction was further relaxed in December 1945 by extending the limit to Rs.5 lakhs subject to the same exceptions.

In the Department of Research and Statistics, the majority of the sanctioned number of officers had been recruited and the expansion to a limited extent of the necessary ministerial staff completed by August 1945. The Department started to function from September onwards on the lines of the organisational set-up mentioned in the last year's Report.

The Division of Monetary Research was organised into sections based broadly on a classification of subjects of study. In addition to the usual work of preparing the Bank's Report on Currency and Finance, the Annual Report, the weekly report to the Committee of the Central Board and the monthly letter to the Empire Central Banks, this Division is engaged on the study, among others, of problems relating to (i) banking in India and in particular of the ownership of demand deposits, the investment portfolio and capital structure of banks, (ii) functioning of the stock-exchanges, (iii) financial implications of post-war reconstruction schemes, and (iv) full employment policy in various countries with particular reference to statistics required for framing a full employment budget for India. A study of the methods followed in other countries in compiling the balance of international payments was undertaken with a view to initiating the collection of statistics for estimating India's balance of international payments. The Division

will also bring out shortly the "Statistical Tables Relating to Banks in India for the years 1944 and 1945", discontinued during the last two years on account of paper shortage.

The Division of Statistics is compiling the Bank's monthly Statistical Summary. Preliminary work for the construction of the following four index numbers is progressing : (1) wholesale prices, (2) industrial security prices, (3) industrial production and, (4) profits of joint stock companies. In this connection, the Director of Statistics undertook tours to important centres in India for holding personal discussions with representatives of Provincial and Central Governments and various commercial organisations and stock-brokers.

The Division of Rural Economics was occupied with a study, among other things, of problems relating to (i) the stabilisation of agricultural prices in India, (ii) rural insurance, (iii) income parity, (iv) the post-war plans of the Provinces and States, and (v) the war-time trends in agricultural co-operation in India. The Director of Rural Economics was appointed a member, to represent the Bank, on the Marketing Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries, appointed by the Government of India. Dr. B. K. Madan continued to represent the Bank as a member of the Agricultural Prices Sub-Committee.

Mr. J. V. Joshi, O.B.E., the Economic Adviser to the Reserve Bank proceeded to the United States in February 1946 in connection with the inaugural meeting of the Board of Governors of the International Monetary Fund and the Bank and was appointed Executive Director of the International Monetary Fund by the Government of India. The services of Dr. B. K. Madan, the Director of Monetary Research were placed on deputation with the Government of India as Deputy Secretary to the Tariff Board with effect from the 15th December 1945.

The sterling assets of the Reserve Bank continued to increase, the net accretions during the accounting year being Sterling Assets. Rs.271·93 crores as against Rs.420·39 crores in the previous twelve months and Rs.1,624·81 crores since the beginning of the war. The total holdings in the Issue and Banking Departments as on the 30th June 1946 amounted to £1,270·80 million or Rs.1,694·39 crores, which are maintained in the form of cash and investments in short-term British Government Securities renewed from time to time. With the end of the war, however, additions to the sterling assets have slowed down, and with defence expenditure on His Majesty's Government's account estimated at Rs.41.66 crores during the financial year 1946-47 as against Rs.347·07 crores (revised) in 1945-46, a further substantial reduction in the rate at which these assets have been accruing might be expected. In the event of a considerable increase in exports from the United Kingdom to India, not only further additions to these assets may be avoided but even the existing balances reduced. The problem of the transfer of these balances

is to be settled bilaterally between India and the United **Kingdom**, and negotiations for this may be expected to take place, now that the Anglo-American Loan Agreement has been ratified by the United States Congress. A suggestion that a portion of the balances might be scaled down is embodied in one of the clauses in the Anglo-American Loan Agreement. The Finance Member has, however, remarked in his budget speech that India will be free to take any line that she may see fit to pursue at the coming negotiations and that any idea of her being committed in advance to a scaling down of the **balances** or to a continuance of arrangements under which such balances will continue to accrue is entirely without foundation.

The International Monetary Fund and the International Bank for Reconstruction and Development came into existence on the 27th December 1945, when the Brettonwoods Agreements were signed in Washington on behalf of Governments responsible for **approx-**imately **80** per cent. of the total subscriptions, with nine out of forty-four Governments who originally participated in the Agreements failing to sign. Pending ratification by the Central Legislative Assembly, which was not then in session, the Government of India provided themselves with necessary powers to sign the Agreement through an Ordinance on the 24th December 1945, and the Agent-General for India in Washington signed it on behalf of India on the 27th December 1945. The Central Legislative Assembly passed a resolution on the 29th January 1946 referring the question of ratification of India's adherence to the **Bretton-**woods Agreements to a Select Committee. In an interim report submitted towards the close of February 1946, the Committee recommended that, until a satisfactory settlement is reached regarding the issue of the liquidation of our sterling balances through the proposed negotiations between His Majesty's Government and the Government of India, no **final** decision should be taken in regard to ratification of India's continuing to remain as a member of the Brettonwoods Institutions. While the Committee recommended that Government might be **authorised** to appoint a Governor and an alternate and Executive Directors and alternates, they were against further **financial** commitments being undertaken by Government before the matter was more fully considered by the Committee, who should be summoned again to be apprised of the report from Sir Chintaman D. **Deshmukh**, India's representative on the Boards of Governors of the Fund and the Bank after his return from the **first** inaugural meeting of the governing bodies of the two institutions held at Savannah (Georgia). The report of Sir Chintaman D. Deshmukh on the proceedings of the inaugural meeting has been submitted to Government.

During the Savannah Conference, when the election of the Executive Directors took place, the U.S.S.R., which was one of the

five largest quota holders, not having joined, India automatically became one of the five countries entitled to appoint an Executive Director on the Fund and the Bank and was therefore precluded from standing for election. There was, however, the possibility of the U.S.S.R. joining the two institutions within the extended time allowed to the original participating **countries**, viz., the 31st December 1946, in which contingency India would cease to be one of the five largest **quota** holders. In that case what the position of the Executive Directors on the Fund and the Bank appointed by India would be was not clear under the Articles of Agreement. The question was examined by a special Committee at India's instance and certain proposals to secure for India an Executive Director's post on each of the institutions were made, to be put into operation in the event of Russia's joining ; but these proposals not being satisfactory from India's point of view, **it** was considered that the only way to safeguard India's position **was** to recommend to the Executive Directors of the two institutions that the Articles of Agreement should be interpreted in such a way as to ensure the maintenance of India's seat on the Fund and the Bank till the time of the next election when India could secure a seat on the strength of her own votes. The Governor for India on the Fund and the Bank accordingly proposed a resolution at the plenary session that in view of the inconsistency between section 3b (1) and section 3f of Article XII of the Agreement, these sections should be interpreted to mean that any member having one of the five largest quotas at the date of the regular election shall be entitled to appoint an Executive Director who shall hold office until the next regular election without prejudice to the right of a subsequently-admitted member to appoint a director, if it has one of the largest quotas. The meeting of the Executive Directors of the Fund decided on the 8th May 1946 that the interpretation suggested by India was the correct one. A similar resolution was passed the next day by the Board of Directors of the Bank according to which it was decided that India, which had once appointed her Director, could not be deprived of her representation until the next election even though a country with a larger quota joined within this period. In view of these decisions it is clear that India will have her Executive Directors on both the Fund and the Bank till the next election in September 1948, when she can elect her representative on each of these institutions on the strength of her own votes.

The problems of the transition economy and long-term planning continue to engage the attention of Governments in most other countries also, and plans for the solution of the former are dovetailed into the more fundamental long-term plans, particularly in the United Kingdom. The process of change-over was handicapped in the U.S.A., particularly after February 1946, by difficulties of re-adjustment of national wage, price and cost structures and in other countries by shortages of manpower or capital equipment. Both in the U.S.A. and the U.K., inflationary pressures have been generated,

E c o n o m i c
Perspective.

though with different degrees of stress and originating from **different** kinds of stimuli. In all countries, however, there is a keen desire that an aftermath of a post-war boom followed by a steep depression of the kind witnessed at the end of the World War I should be avoided at **all** costs. In particular, if economic fluctuations originate in the major industrial countries and in the United States in particular, it is likely that they will transmit their effects extensively. Intense efforts therefore are being made to organise international co-operation as given expression to in the Anglo-American Loan Agreement and the various monetary agreements entered into by the U.K., with countries like Canada and several others, both in and outside the sterling area, the basic assumption underlying all of them being that **financial** stability is an essential pre-requisite of economic stability and orderly transition from war economies to those of full production or full employment. The institutions set up under the Brettonwoods Agreement are meant to tackle the long-term problems of international monetary co-operation. The formulation of an appropriate international trade policy which is to form the foundation for the operation of these institutions is due to be taken up shortly. India's own share in respect of international collaboration has been that of cautious co-operation as was expressed by her conditional membership of the Brettonwoods institutions and a general consensus of opinion that she would be willing to play her role in an international economy, subject to the recognition of her claims for economic development.

The total staff as on the 30th June 1946 **totalled** 4,605 including 1,340 temporary employees. They have had to experience the inevitable hardships arising from the abnormal conditions brought about by the war, and the Board wishes to record its appreciation of the willing co-operation given by them in coping with the heavily increased work all through the war years, and the efficient manner in which they have continued to discharge their duties.

The Board also wishes to place on record its appreciation of those employees of the Bank who, in response to the country's call, joined the Armed Forces. Of the 23, who had thus gone on war service, one died in action and 5 were released during the year under review and returned to duty. The remaining 17 are continuing in that service. Of these, 14 are in the Army, 2 in the Royal Air Force and 1 in the Royal Indian Air Force.

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

APPENDIX.

(a) *Scheduled Banks.*

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Ajodhia Bank. 2. Allahabad Bank. 3. American Express Co. Inc. 4. Andhra Bank. 5. Associated Banking Corporation of India. 6. Banoo Naional Ultramarino. *7. Bank of Assam. 8. Bank of Baroda. 9. Bank of Behar. *10. Bank of Bikaner. 11. Bank of China. 12. Bank of Commerce. 13. Bank of Communications. 14. Bank of Hindustan. 15. Bank of India. 16. Bank of Jaipur. 17. Bank of Maharashtra. 18. Bank of Mysore. 19. Bank of Nagpur. 20. Bareilly Corporation (Bank). 21. Bharat Bank. 22. Bengal Central Bank. 23. Calcutta Commercial Bank. 24. Calcutta National Bank. 25. Canara Bank. 26. Canara Banking Corporation. 27. Canara Industrial & Banking Syndicate. 28. Central Bank of India. 29. Chartered Bank of India, Australia & China. 30. Comilla Banking Corporation. 31. Comilla Union Bank. 32. Comptoir National D'Escompte de Paris. 33. Devkaran Nanjee Banking Co. 34. Dinajpore Bank. 35. Discount Bank of India. 36. Eastern Bank. 37. Exchange Bank of India & Africa. 38. Gadodia Bank. 39. Grindlay & Co. 40. Habib Bank. 41. Hind Bank. 42. Hindustan Commercial Bank. 43. Hindusthan Mercantile Bank. 44. Hongkong & Shanghai Banking Corporation. 45. Hooghly Bank. | <ol style="list-style-type: none"> 46. Imperial Bank of India. 47. Indian Bank. 48. Indian Overseas Bank. 49. Indo-Commercial Bank. 60. Indo-Mercantile Bank. 61. Industrial Bank of Western India. 62. International Bank of India. 53. Jwala Bank. 54. Jodhpur Commercial Bank. 66. Karnani Industrial Bank. 66. Kumbakonam Bank. 57. Laxmi Bank. 68. Lloyds Bank. 69. Mahaluxmi Bank. 60. Mercantile Bank of India. 61. Nadar Bank. 62. Narang Bank of India. 63. Nath Bank. 64. National Bank of India. 66. National Bank of Lahore. 66. National City Bank of New York. 67. National Savings Bank. 68. Nedungadi Bank. 69. Netherlands India Commercial Bank N.V. 70. Netherlands Trading Society. 71. New Bank of India. 72. New Citizen Bank of India. 73. New Standard Bank. 74. Noakhali Union Bank. 76. Oriental Bank of Commerce. 76. Oudh Commercial Bank. 77. Palai Central Bank. 78. Pioneer Bank. 79. Prabhat Bank. 80. Pratap Bank. 81. Punjab & Sind Bank. 82. Punjab Co-operative Bank. 83. Punjab National Bank. *84. South India Bank. *85. Southern Bank. *86. Tanjore Permanent Fund. 87. Traders' Bank. 88. Tripura Modern Bank. 89. Union Bank of India. 90. United Commercial Bank. 91. United Industrial Bank. *92. United Sind-Punjab Bank. 93. Universal Bank of India. |
|--|--|

(b) *Burma Scheduled Banks.*

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

