RESERVE BANK OF INDIA

REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

FOR THE YEAR ENDED 30th JUNE, 1948

To be presented to the Shareholders at the Fourteenth Annual General Meeting to be held on Monday, the 9th August, 1948, at the Reserve Bank of India, Mint Road, Bombay, at 4 p.m. (Standard Time).

1948

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

For the year 1st July 1947—30th June 1948.

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 fourteenth accounting period beginning on 1st July, 1947 and ending on 30th June, 1948.

ANNUAL **ACCOUNTS**

After payment of expenses of administration and provision for sundry liabilities and contingencies the net profit amounts to . .	Rs.	**10,38,28,428-14-8**
Of this amount the sum of will be utihsed 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 30th June, **1943),** which continues to be in force, the rate at whioh the 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.**	**17,50,000-** 0-0
	Rs.	**2,50,000-** 0-0
leaving a surplus of for payment to the Central Government in accordance with the said section as modified by the Ordinance.	Rs.	**10,18,28,428-14-8**

Out of the surplus profit thus received from the Bank, the Government of India are to pay to the Government of Pakistan under Section 1 (2) of Part IV of the Pakistan (Monetary System and Reserve Bank) Order, 1947, as amended by the Pakistan Monetary System and Reserve Bank (Amendment) Order, 1948, a sum which bears to the total of such surplus profit the same proportion as the total value of Pakistan notes in circulation in Pakistan on 30th June, 1948, *plus* the total value of India notes returning from circulation in Pakistan in the year commencing on **1st** July, 1048, bears to the total value of India notes and Pakistan notes in **circulation in India** and Pakistan on 30th June, 1948.

Auditors.

The accounts of the Bank have been audited by Messrs. **S.** B. Billimoria **&** Co. of Bombay, **Mr. P. K. Ghosh** of Calcutta and Messrs. **Sastri** and Shah of Madras who **were** elected **as auditors of** the Bank by the shareholders at their meeting held at Calcutta on 4th August, 1047 in **accordance** with Section 50 (**1**) of the Reserve Bank of India Act, 1034. The present auditors, being **eligiblo,** offer themselves for reappointment.

Constitution of the Central Board.

The Board regrets to have to **record** with profound sorrow the death on 15th April, 1948, of Sir Homi Mehta, K.C.I.E., K.B.E., a nominated Director of the Bank, in an air crash. His **death** in such tragic **circumstances** has deprived the Board of the collaboration of a colleague who had through his long association with the Bank rendered valuable public service.

On 1st July, 1947, Sir Arthur A. **Bruce,** K.B.E., resigned his seat as a Director of the Central Board of **the** Bank. In the vacancy caused by his resignation Mr. Nazir Ahmed Khan was nominated by the Government of India on 12th January, 1948, in pursuance of olause 8 (1) (*b*) of the Reserve Bank of India Act. As, however, Mr. Nazir Ahmed Khan **continued** to retain his membership of the Pakistan Constituent Assembly, he ceased to be a Director from 12th March, 1048, under Section **11** (5) of the Reserve Bank of India Act.

The Director representing the Southern (Madras) Area was due to retire on 31st December, 1947, under sub-section 4 of Section 8 of the Act, and an election of the members of the Southern Area Local Board was held in November, 1947. As an additional elective directorship was allocated to the Southern (Madras) Area in lieu of the abolition of the elective **directorship** of the Burma (Rangoon) Area, two Directors had to be elected to represent the shareholders of the Southern Area Register. Accordingly, at a meeting of the elected members of the Local Board held in Madras on 23rd December, 1947, Mr. C. R. Srinivasan and Mr. R. Ramanathan Chettiar were elected under sub-section 7 of Section 9 of the Act as Directors of the Central Board to represent the shareholders of that Area.

Under Section 8 (1) (d) of **the** Reserve Bank of India Act, the Government of India nominated on 13th January, 1948 Mr. M. V. Rangachari to be a Director of the Central Board in place of **Mr.** V. Narahari Rao, C.S.I., **C.I.E.** Mr. Narahari Rao **was,** however, renominated **as a** Director in **place** of Mr. Rangachari under the same provision, on 16th January, 1948.

Mr. C. R. Trevor, C.I.E., Deputy Governor, proceeded on three months' leave from 15th April, 1948 and on the recommendation of the Central Board, Mr. W. T. McCallum, O.B.E., Manager of the Bank's Bombay Office, was appointed by the Government of India as Deputy Governor during the absence on leave of Mr. Trevor, in terms of Section 12 (1) of the Act.

On 22nd May, 1948, the Central Government nominated Sir Rustom P. Masani to be a Director of the Central Board under sub-section 1 (b) of Section 8 of the Reserve Bank of India Act, in the vacancy caused by the death of Sir Homi Mehta, K.C.I.E., K.B.E.

Meetings of the Central Board and its Committee.

During the year under report, nine meetings of the Central Board were held including two special meetings in New Delhi on 14th and 16th January, 1948. Of these, four were held in New Delhi, two in Bombav, two in Calcutta and one in Madras. The Committee of the Central Board met fifty-four times ; forty-four times in Bombay, six times in Calcutta and four times in Delhi.

Local Boards.

There was one Local Board election during the year, as already mentioned, in the Southern (Madras) Area in November, 1947. Messrs. C. R. Srinivasan, R. Surya Rao, R. Ramanathan Chettiar, Jagannathadas Govindas and S. B. P. Pattabhirama Rao were elected without contest. Rao Bahadur C. Gopala Menon, Rao Bahadur R. R. Iyer and Mr. Herbert Ison Wonfor were nominated by the Central Board to be members of the Madras Local Board and all the members assumed office on 23rd December, 1947. Mr. Herbert Ison Wonfor, one of the nominated members of this area, resigned his seat on 25th March, 1948. The vacancy caused by his resignation has not yet been filled.

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			
	1st April, 1935.	31st December, 1936.	30th June, 1947.	30th June, 1948.
Bombay	1,40,000	1,89,838	2,36,629	2,38,788
Calcutta	1,45,000	1,31,423	1,26,318	1,27,602
Delhi	1,15,000	97,314	78,955	78,723
Madras	70,000	61,217	49,660	49,459
Rangoon	30,000	20,208	8,438	5,428
Total . .	5,00,000	5,00,000	5,00,000	5,00,000

	Number of shareholders as on			
	1st April, 1935.	31st December, 1936.	30th June, 1947.	30th June. 1948.
Bombay	28,000	22,342	17,362	17,230
Calcutta	23,890	15,571	10,457	10,403
Delhi	23,000	16,744	10,317	10,117
Madras :: ::	14,000	9,702	6,392	6,279
Rangoon	3,157	1,914	503	371
Total . .	92,047	66,273	45,031	44,400
Average number of shares held by each shareholder..	5.4	7.5	11.1	11.3

The year under review showed a further decline in the total number of shareholders from 45,031 on 30th June, 1947 to 44,400 on 30th June, 1948. The tendency noticed sinoe 1944 for the number of shares on the registers of the Bombay and Calcutta Areas to expand continued, the increases during the year being 2,159 and 1,284 respectively. A large number of shares amounting to 3,010 held by persons on the Rangoon register, which is being wound-up in terms of the Reserve Bank of India (Amendment) Act, 1947, were transferred to the registers in India during the year, and this was responsible for most of the increase in the shares on the Bombay and Calcutta registers. The Delhi and Madras Areas showed declines of 232 and 201 respectively.

Bank's Premises.

During the year the Bank purchased the property known as " Amar Building " adjacent to their own premises at Bombay to meet the demand for extra space resulting from considerable expansion of the various departments of the Bank. Owing to legal difficulties, however, it has not been possible to get vacant possession of the building so far, but efforts are being made in that direction. The Bank have also constructed a Lounge and Dining Room for the use of distinguished visitors and officers, on the roof of the Bank's building. In pursuance of the decision to open a Branch Office of the Bank at Nagpur a suitable plot of land in a central locality in the Civil Lines has been purchased and plans for the new building to be constructed thereon are under preparation.

It has been the Bank's policy to assist the staff wherever possible in the present all-round shortage of housing accommodation, and in furtherance of this policy, the Bank have purchased a property at Bombay for housing officers and also a plot of land at Dadar where it is proposed to construct quarters for the subordinate staff. Also, with a view to giving relief to the refugee staff transferred from Pakistan offices to Kanpur, construction of temporary quarters has been undertaken in the compound of the Bank's premises. The Bank axe also exploring the possibilities of starting housing schemes at each of the other centres where their offices are situated.

New Offices of Issue.

Following the partiticn of the country, administrative inconvenience was experienced by the Lahore circle of issue whose jurisdiction extended over areas partly in India and partly in Pakistan. Further, as the Lahore Office was ultimately to be transferred to the Government of Pakistan on termination of the joint monetary arrangements, a full-fledged Issue Department was opened at tbe Bank's Delhi Office with effect from 1st December, 1947, and the currency cheats located in East Punjab and Delhi were transferred to its jurisdiction.

At the request of the Government of Pakistan, a branch of the Issue Department was also opened on 1st April, 1948, at Dacca, with jurisdiction over cheats situated in Eastern Pakistan hitherto under the jurisdiction of our Issue Department at Calcutta.

New Public Debt Offices.

With a view to assisting the Pakistan Government in taking over the manegement of the public debt of the Provincial Governments in Pakistan in terms of the Pakistan (Monetary System and Reserve Bank) Order, 1947, three public debt offices of the Bank were established, one at Dacca which started functioning on 21st February, 1948, and one each at Karachi and Lahore with effect from 1st March, 1948 and 8th March, 1948, respectively.

Closing of Bank's Offices in Pakistan.

Consequent on the termination of the joint monetary arrangements with Pakistan on 30th June, 1948, the Bank's offices at Karachi, Lahore and Dacca were transferred to the State Bank of Pakistan with effect from 1st July, 1948, and they ceased to be under the administrative control of the Reserve Bank of India from that date.

Notes and Coin.

A new design of the five-rupee note was introduced by the Bank during the year. The new notes, which have a security thread, are printed in green and overprinted with a rainbow tint, and were first issued from Bombay on 15th October, 1947. There was no other change made in respect of any denomination or pattern of notes during the year under review.

Part IV of the Pakistan (Monetary System and Reserve Bank) Order, 1947 (referred to below), contains, among other things, provisions regarding the division of coinage profits between the Governments of India and Pakistan during the continuance of the joint monetary arrangements. In accordance with these provisions, as amended by the Pakistan Monetary System and Reserve Bank (Amendment) Order, 1948, the Government of India shall pay to the Government of Pakistan the profit made during the period 15th Auguet, 1947 to 30th June, 1948, as calculated by the Auditor General of India, on the net amount of India subsidiary coins which are actually passed into circulation in Pakistan during that period *less* the loss on the destruction of any India subsidiary coins returned from Pakistan which were not fit for re-issue. If the amount of India subsidiary coins returning from circulation in Pakistan exceeds the amount of India subsidiary coins actually passed into circulation in Pakistan during that period, the Government of Pakistan shall pay to the Government of India the loss attributable to that fact, together with the loss on the destruction of any India subsidiary coins returned from Pakistan which were not fit for re-issue.

Cessation of Legal Tender Character of India. Notes in Burma.

By 8 notification issued on 29th October, 1941 by the Government of Burma under the provisions of the India and Burma (Burma Monetary Arrangements) Order, 1937, the " India " notes of the Reserve Bank of India (i.e., Indian currency notes not marked " Legal Tender in Burma only ") had ceased to be leg81 tender in Burma after 31st March, 1942. Subsequently, however, the legal tender character of these notes in Burma was revived by 8 proclamation issued on 1st May, 1945, by the Supreme Allied Commander of the South-Esst Asia Command. In terms of this proclamation, Reserve Bank of India " India " notes of all denominations were again declared leg81 tender in the liberated parts of Burma along with other specified currency notes circulating in Burma. In view of the attainment of political independence by Burma and the termination of the joint monetary arrangements between India and Burma on 1st April, 1947, the Government of Burma have deoided to terminate, with effect from 1st July, 1948, the leg81 tender character in Burma of " India " notes and Government of India one-rupee notes without the superscription " Leg81 Tender in Burma only."

Joint Monetary Arrangements with Pakistan.

On the eve of the partition of India on 16th August, 1947, the Governor-General issued the Pakistan (Monetary *System* and Reserve Bank) Order, 1947, with a view to maintaining 8 unified monetary system for the two Dominions until the Government of Pakistan established their own machinery to regulate currency and banking. The Order embodied, among other things, certain provisions relating to currency and coinage which were to be in foroe upto 39th September, 1948. In particular, the Bank was to have the sole right to issue bank notes in Pakistan upto 30th September, 1948, and was also authorised to issue, after 31st March, 1948, distinctive bank notes inscribed with the words " Government of Pakistan."

As a, result of discussions held in March, 1948, between the Bank and the representatives of the Governments of the two Dominions, it was, however, decided to terminate the joint monetary arrangements on 30th June, 1948. Accordingly, an Order amending the original Order and called the Pakistan Monetary System and Reserve Bank (Amendment) Order, 1948 was issued on 31st March, 1948, under which the Bank continued as the currency authority in Pakistan only upto 30th June, 1948 and not 30th September, 1948.

In terms of para 5 (2) of Part II of the P&i&an (Monetary System and Reserve Bank) Order, 1947, Bank notes of the current pattern inscribed with the words " Government of Pakistan " in English and Urdu were put into circulation in Pakistan from 1st April, 1948. The Government of Pakistan one-rupee notes, inscribed with the words " Government of Pakistan " in English *and* Urdu in the current pattern of Government of India notes, and Pakistan coins of distinctive designs but of the same denominations as India coins were also put into circulation as from the same date. These notes and coins are not, however, legal tender in India.

Publication of Currency Report.

The Bank's Report on Currency and Finance for the year ended 31st March, 1948, is expected to be issued shortly. The Report deals with the economic and financial conditions in the country, the Government finances and also with a few of the important economic and financial developments abroad in greater detail than this Report, which is intended primarily to review the Bank's working during the accounting year.

General Economio Conditiona.

The general economic situation in India was dominated during the year mainly by the developments following the partition of the country which added to, and at times entirely overshadowed, the already grave problems of industrial reconversion that had arisen on the termination of the war. While there was not much change in the international economic situation, in India inflationary pressures again gathered momentum following decontrol of prices, rises in wages, inadequacy of transport and the continued shortages of essential goods ; the general price level and the coat of living showed an almost uninterrupted rise. There was also a weakening of confidence during the greater part of the year affecting business activity and sentiment as evidenced by the working of the stock exchanges. The fall in industrial production has been the result of the operation of a number of factors, including a *general* sense of frustration on the part of industrialists after the imposition of fresh taxation in the budget for 1947-48, the growing industrial unrest and tbe dislocation arising from widespread communal disturbances. The conditions of shortages thus resulting from an unsatisfactory supply position were further accentuated by the transport difficulties, the adoption of a more restrictive import policy by Government for the purpose of conserving foreign exchange. There were renewed additions to currency circulation mainly as a result of the depletion of Government balances accumulated during the war. This was due in no small degree to the refugee rehabilitation work, which imposed a heavy strain on the country's administrative and financial machinery, the provision made by the Government of India in the interim budget for 1947-48 and the annual budget for 1948-49 being respectively Rs. 14.89 crores and Rs. 10.04 crores. With a view to attaining internal stabilisation, the Government adopted a number of measures calculated primarily to assist in the stepping up of industrial production and r&oration of normal conditions. The more important of these included (1) the adoption by the Tripartite Industries Conference in December, 1947, of a resolution calling for a Three-year Industrial Truce between capital and labour and the creation in May, 1948, of a comprehensive machinery for the study and determination of fair wages and fair remuneration for capital and for the solution of industrial disputes in a just and peaceful manner, (2) the adoption of legislation early in February for the establishment of the Industrial Finance Corporation, referred to in the last Report, (3) the grant of tax concessions to industry in the budget for 1948-49, and (4) the announcement early in April of Government's industrial policy, demarcating, among other things, the respective spheres in the industrial field of State and private enterprise. The resolution embodying Government's industrial policy indicated Government's intention, among other things, to establish a National Planning Commission with the main function of formulating and executing programmes of development. Some of these *measures* may bear fruit in the long run ; some, e.g., tax concessions do not go far enough ; and some, e.g., announcements of industrial policy have suffered as a result of subsequent contradictory declarations from responsible quarters. In the meanwhile the economy currently is still a long way off from stability and is taking time to recover from the shocks of last year's upheavals.

The food situation, which had been causing grave concern at the close of last year, worsened rapidly during the early part of the year and by August it seemed as though the rationing system would break down. The threatened crisis, however, was averted by the temporary drastic reduction in the ration scales in August, a better harvest of *kharif* crops and an appreciable increase in imports of foodgrains from abroad amounting to about 1.75 million tons during the latter half of the year under review. The Government of India announoed on 10th December, 1947, their new food policy based on the principle of progressive decontrol. It was hoped that this would result in the dehoarding of stocks and also reduce Government's commitments in regard to imports. In pursuance of this polioy, a number of Provincial Governments, as also some States, issued orders, the measures of relaxation varying from province to province. As was feared in some quarters, this policy has, however, resulted in a further sharp rise in the prices of foodgrains, and a wide divergenoe in prices as between different areas, on account of transport difficulties and restrictions on movement of grains between different regions. Between November last and May this year, the Food Index registered a rise of 21 per cent. Although towards the close of the year the rise has slowed down, there is as yet no sign of a reversal of the upward movement.

Commodity Prices end Decontrol.

The policy of gradual decontrol of prices beoame the main factor affecting the course of events, particularly during the latter half of the year under review. Government first removed, as an experimental measure, control ovor the production, distribution and prioes of pulses other than grams, with effect from 15th November, 1947. This was followed by decontrol of sugar with effect from 8th December, 1947, and the announcement on 10th Deoember of the Government's revised food policy of gradual decontrol. The Government also relaxed the existing controls over cotton and cloth with effect from 20th January, 1948, the action taken by them including, among other things, the removal of the 'floors' and 'ceilings' in respect of cotton prices and the discontinuance of control over prices and distribution of cloth. Following these measures, prices of the decontrolled commodities soared above the controlled rates, a very steep rise having occurred in the case of cloth. At their peak levels, the wholesale prices of finer varieties of cloth in Bombay were 200 to 250 per cent above the ex-mill prices fixed in January under the voluntary price control, the rise in coarser varieties being as much as 100 per cent, although there has since been an appreciable fall. The rise in the price of cereals like wheat and rice in some deficit areas ranged from 100 to 250 per cent above the controlled rates. The actual prices paid by consumers were still higher in a number of cases but these were probably lower than those paid in the blaok markets which prevailed under the scheme of controls. The effects of the policy of decontrol and the other factors mentioned above on the general level of prices of the more important groups of commodities can be gauged from the steep rise in the Economic Adviser's Index Number of Wholesale Prices since Deoember last, which was further accentuated by the increases in cement and steel prices allowed by the Government on 29th December, 1947 and 28th January, 1948, respectively. Between November, 1947, and May, 1948, the General Index has shown an increase of 21 per cent. Semi-manufactures have gone up by 26 per cent, Manufactures by 24 per cent, Food Articles by 21 per cent and Industrial Raw Materials by 17 per cent. Thus the price situation emerged once again as the most important aspect of the economic problem during the year and needs the most careful watching not only for its likely repercussion on social welfare but also for the almost certain reactions on financial policy which this is bound to create, when the effects of these price increases percolate widely into the income structure.

Balance of Trade.

In spite of the measures taken during the last quarter of the accounting year 1946-47 to tighten up the import control restrictions with a view to conserving the limited foreign exchange resources of the country, the gap in the country's balance of trade with the hard currency countries, widened further, during the first half of 1947, owing mainly to the inflow of non-essential goods in substantial quantities and the imports of food-grains at rising prices. The Government, therefore, announced on 3rd July, 1947, their revised import policy for the shipping period July to December, 1947, under which, while capital goods and essential industrial raw materials were for the most part licensed freely, essential consumer goods were restricted by monetary ceilings and non-essential goods were sought to be eliminated. The effects of this policy were not, however, fully reflected in import values in subsequent months owing to the revalidation of outstanding licences for a period upto 31st December, 1947 and in certain cases even upto 30th June, 1948. Because of this and a further deterioration in the dollar reserves available to the country, the Government again reviewed the position in December, 1947 and announced on the 12th of that month the new arrangements under which the policy pursued hitherto of non-discrimination regarding the sources of India's imports was abandoned, imports for the period January to June, 1948 being classified into those which would be licensed freely from dollar areas, those which would be licensed freely from non-dollar areas and those which would not be licensed at all. In view, however, of a subsequent improvement in the sterling exchange reserves, the restrictions on imports from sterling area were slightly relaxed as from January, 1948. As regards export controls, there was a considerable measure of liberalization during the year. As far as possible, export quotas in respect of certain commodities were increased, for example, the quota for cotton piecegoods for the half-year January-June, 1948, being raised to 200 million yards against 300 million yards for the full year 1947. As regards commodities like jute, jute manufactures, oilseeds, oils, cotton piecegoods, etc., the existing controls relating to destination as well as quantity were retained in view of their short supplies in relation to demand and the need to direct available supplies to areas from which food purchases were largely made as well as to build up the oountry's dollar reserves.

Notwithstanding the partition of the oountry, the economic inter-dependence of the two Dominions, particularly in the sphere of trade, made it incumbent upon them to ensure a free flow of goods between them pending a long-term agreement. On the basis of the recommendations of an expert committee consisting of representatives from both the Dominions, a standstill agreement was soon concluded which provided for the maintenance of the *status quo* in regard to import and export controls and customs tariffs during the interim period ending 29th February, 1948, On the termination of this agreement, Pakistan was declared a foreign territory, and movement of goods from and to Pakistan was brought within the purview of the Imports and Exports (Control) Act, 1947. The maladjustments resulting therefrom were, however, partially mitigated by an agreement arrived at between the two Dominions in April, which provided, among other things, for the removal of restrictions whether imposed by a Central or Provinoial Government on the movement between the two Dominions of a number of commodities and the customs duties thereon, the commodities including fresh fruit, vegetables, milk and its products, poultry and eggs, local spices, bamboo and firewood. Later, towards the close of May, another important agreement was arrived at, which provided for the mutual exchange of essential commodities on a short-term basis upto certain agreed limits. The more important commodities which India will supply under this agreement to Pakistan include coal, cloth and yarn, jute manufactures, steel and railway stores. In return, Pakistan will supply to India mainly raw jute, raw cotton and foodgrains. The agreement is to cover a period of one year from 1st July, 1948, to 30th June, 1949, except as regards cotton, cotton textiles and foodgrains for whiah different twelve-month periods have been fixed. It would be in the interests of both countries to extend the scope of such agreements and to supplement them by a suitable liberalisation of the scheme of customs duties, relaxation of restrictions on *bona fide* exports and mutual concessions in the matter of Central excise duties.

Final trade figures for 1947-48 are not yet available ; but according to preliminary figures compiled by the Reserve Bank (and subject to revision at a later stage) the total value of the foreign sea-borne trade (Private and Government) of India and Pakistan for the seven months ending January, 1948, amounted to Rs. 643.2 crores as against Rs. 391.1 crores for the corresponding period ending January, 1947, representing a rise in value terms of Rs. 152.1 crores or 39 per cent. A feature of this was the sharp rise under exports both on private and Government account. Exports of private merchandise moved up by Rs. 76.8 crores from Rs. 186.7 crores to Rs. 262.5 crores, a rise of 41 per cent over the corresponding period of the previous year. Exports on Government account rose from Rs. 44 lakhs to Rs. 16.1 crores. Imports showed a oomparatively smaller rise, mainly as a result of the tightening up of import controls. Imports of private merchandise rose by Rs. 62.1 croros from Rs. 178.7 crores to Rs. 237.8 crores, while imports on Government account at Rs. 27.8 crores showed a small decline of Rs. 1.5 crores from the level of the corresponding period in the previous year. In the result, there was an improvement in the balance of trade which showed a small surplus of Rs. 11.8 crores as compared with a deficit of Rs. 18.9 crores during the corresponding period in the previous year.

Exchange.

In the rupee-sterling exchange market, banks' quotations to the public for ready telegraphic transfers remained unchanged throughout the year at lsh. 5-31/32d. selling and lsh. 6-1/32d. buying. Banks continued to quote forward buying rates for delivery upto one year, the rate quoted for telegraphio transfers for the last three months being lsh. 6-1/16d. as against lsh. 6-1/32d. for the first nine months. The forward selling rate for sterling telegraphic transfers for delivery upto six months remained unchanged at lsh. 5-15/16d. The Reserve Bank continued to buy sterling telegraphic transfers from banks for delivery within six months at lsh. 6d. and to sell for ready delivery at lsh. 5-63/64d. The Bank also sold sterling for delivery upto six months forward at Ish. 5-31/32d. but the demand for forward sterling from banks was negligible. The net purchases of sterling by the Reserve Bank (which maintained a joint account for India and Pakistan from 15th August, 1947, to 31st December, 1947) amounted to £33,001,000 in the first half of the accounting year ; in the second half, during which separate accounts were maintained for the foreign exchange earnings and expenditures of the two Dominions, the net purchases on account of India and Pakistan amounted to £52,892,000 and £23,051,000 respectively. The total net purchases during the year thus amounted to £108,944,000 as against net sales of £65,141,074 during the preceding year.

Exchange Control.

There were no changes in the basic principles of exchange control during the period under review although its scope was greatly extended. Pending the completion of the sterling balances negotiations, which commenced early in July, 1947, in London between the delegations representing the Governments of India and the United Kingdom, restriotions were imposed on transfers of capital from India to the United Kingdom and other sterling area countries with a view to preventing possible movement of capital from India. The general permission given for transactions in sterling area currencies was cancelled and the opening of new accounts in such currencies by persons domiciled in India was made subject to the Reserve Bank's permission. The export control procedure, which ensures that full proceeds of exports are realized through the medium of an authorised dealer in foreign exchange, was extended to cover exports to all countries excepting Afghanistan, Nepal, Tibet, French and Portuguese India. Other measures taken included extension to sterling area countries of the restrictions already existing on the export of jewellery and precious stones, complete prohibition *on* the despatch of currency notes by post and withdrawal of the general permission for the export of securities and their transfer to residents of the sterling area, etc.

Following the first interim Sterling Balances Agreement between the Government8 of India and the United Kingdom in August 1947, these restrictions, instituted on a tentative basis, were made more comprehensive. Remittances in sterling and sterling area, currencies were subjected to restrictions similar to those in force for non-sterling area currencies. Remittances of capital by sterling area nationals were, however, permitted but restrictions were placed on the operations by authorised dealers on their sterling holdings and fresh investments in sterling or sterling area currency securities including treasury bills or the opening of fixed deposit accounts with banks in London, all of which were made subject to the prior approval of the Reserve Bank. Restrictions were also placed on the granting of loans and overdrafts against security lodged outside India.

Orders were also issued by the Government of India permitting the resumption of commercial and financial transactions with the ox-enemy countries with which trade relation8 had not so far been permitted, viz., Rumanis, Germany, Bulgaria and Japan.

Foreign exchange for travel outside the sterling area for purposes of business, education and health continued to be sanctioned on the previous scales but in view of the dollar stringency, applications for travel to the United States and other hard currency countries were subjected to closer scrutiny. The facility which had been allowed to post-graduate students proceeding to foreign countries for taking their families with them was also withdrawn in respect of hard currency countries. In addition, scales of allowances for travel in sterling area countries were fixed as from 1st September, 1947.

Section 8(1) of the Foreign Exchange Regulation Act was amended in December, 1947, by the addition of an explanation, which makes the import of gold or silver into any port in the provinces of India without the permission of the Reserve Bank of India illegal even though the gold or silver so brought is in transit to a place outside this country. In order to exempt from the purview of this section consignments of bullion in transit from one foreign country to another carried in ships touching Indian ports, which it was not meant to prohibit, the Reserve Bank of India issued a notification on 21st January, 1948, giving general permission to bring or send gold or silver by sea or air into any port in the provinces of India, provided the gold or silver is in transit to a place outside India, Pakistan and the Indian States, and is not removed from the carrying ship or aircraft except for the purpose of transhipment.

Bullion Market.

The ban on bullion imports imposed by the Government of India on 6th March, 1947 had the effect of isolating again the bullion market in India from the world markets. The trends in the Indian bullion market, therefore, were governed during the year, mainly by internal factors, although there was also evidence, from time to time, of the indirect impact of important developments in foreign oentres.

On the Bombay Bullion Exchange, official forward trading, which remained suspended since 12th May, 1947, pending the formulation of a new contract, was resumed from 26th March, 1948. As regards future control of trading in bullion in the province, the Government of Bombay have accepted the recommendations contained in the Report of the Cabinet Committee appointed in May, 1947, and, as a first step, have called upon the Bombay Bullion Exchange to reorganise itself generally on the lines of the East India Cotton Association. It is expected that when a new constitution is evolved on the suggested lines, new rules and regulations based on the Cabinet Committee's recommendations will be framed with the approval of the Government so as to promote a healthy system of trading in bullion,

Trading in the ready section showed that the quotations of both the metals were maintained on the whole at higher levels than during the preceding year. There was a break in prices during October, owing mainly to the influence of the conditions arising from widespread communal disturbances, but thereafter a generally firm tone prevailed during the rest of the year, except for a temporary sharp setback in silver during the month of February, 1948. Apart from growing uncertainties in the internal political situation, other important contributory factors included the renewed expansion in currency and rising commodity prices.

In gold, apart from a temporary recession during the last week of July, the ready rate tended to be steady, moving between Rs. 112-7-O and Rs. 109-10-O up to about the close of September when, following the heavy influx of refugee gold from up-country centres, it slumped to touch the lowest level of the year at Rs. 95-14-O on 14th October. Thereafter, despite occasional recessions, a generally firm tendency was in evidence, mainly on account of Government's action to tighten up the ban on bullion imports and the introduction of the Estate Duty Bill in the Dominion Parliament. The rate advanced to touch the highest level of the year at Rs. 118-8-O on 5th May, olosing for the year at Rs. 115-3-O as against Rs. 113-8-O at the end of the preoeding year.

Silver more or less followed the trend in gold, excepting in February, 1948, when, following the reported demand by banks of higher margins on advances against silver, the rate declined to the year's lowest level at Rs. 142-8-O on 9th February. A gradual recovery followed, the ready rate rising to the highest level of the year at Rs. 180-14-o on 11th May and closing for the year at Rs. 174-15-O as against Rs. 173-12-O at the end of the preceding year.

Government Loans.

Because of the partition of the country and the general uncertainty in the political and economic fields the Central Government could not reach the borrowing target of Rs. 150 crores envisaged in the budget for 1947-48. Its loan operations during the year) as detailed below, were confined to the flotation of one new loan, namely, the $2\frac{3}{4}$ per cent Loan, 1962, in November, 1947, with a second issue of the same loan in June, 1948, and the repayment of two loans, namely, the $3\frac{1}{2}$ per cent Loan, 1947-50 and the $2\frac{3}{4}$ per cent Loan, 1948-52. The new loan issues were fully subsoribed, the total subscriptions including amounts of maturing loans tendered for conversion being approximately Rs. 75 crores.

The Central Government floated on 15th November, 1947, a new cash-cum-conversion loan at par for approximately Rs. 40 crores bearing interest at $2\frac{3}{4}$ per cent and repayable at par on 15th November, 1962. The total subscription to this loan amounted to Rs. 40.85 crores and comprised Rs. 20.84 crores by tender of cash and Rs. 20.01 crores by conversion of the 39 per cent Loan, 1947-50, which bad been notified earlier for repayment on 15th November, 1947, and the holders of which were given the option to convert their holdings into the new loan. Of the outstanding balance of RR. 55.94 crores of the $3\frac{1}{2}$ per cent Loan, 1947-50, as on 14th November, 1947, the total amount redeemed up to 30th June, 1948, including that tendered for conversion was Rs. 54.79 crores. A further issue of the $2\frac{3}{4}$ per cent Loan, 1962 was made on 1st June, 1948, in the form of a oonversion loan, the amount of Rs. 35 crores invited being open to subscription by tenders of the $2\frac{3}{4}$ per cent Loan, 1948-52 which was notified for repayment on 15th July, 1948, and which fell due for repayment optionally on 1st June, 1948. The issue prioe was fixed at Rs. 100 for every Rs. 100 nominal, the 29 per cent Loan, 1948-52 tendered for conversion being accepted at par. While the interest on the $2\frac{3}{4}$ per cent Loan, 194852 was paid up to 31st May, 1948, that on the new issue was allowed to accrue from 16th May, 1948. The whole amount offered was subscribed in full.

The Government of Pakistan floated on 14th February, 1948, the following loans, namely, (i) 29 per cent Loan, 1953-54, (ii) 3 per cent Loan, 1960, (iii) 3 per cent Loan, 1968 and (iv) $1\frac{1}{2}$ per cent Income-tax-Free Bearer Bonds, 1958. The issue prioe of all the four loans was fixed at Rs. 100 each upto 28th February, 1948, the price being increased thereafter by 8 pies, 9 pies, 9 pies and 6 pies per cent respectively every week, the weekly increase approximating to the net interest accruing on the securities. The $2\frac{3}{4}$ per cent Loan, 1953-54 and the $1\frac{1}{2}$ per cent Income-tax-Free Bearer Bonds, 1958 closed for subscription on 1st June, 1948, while the 3 per cent Loan, 1960 also was closed on the same date to all subscribers except Insurance companies and Provincial Co-operative banks in Pakistan. The 3 per cent Loan, 1968 will continue to be on tap until further notice. The total subscriptions to all the four loans, as received up to 31st March, 1948, totalled approximately Rs. 31.84 crores.

No new provinoiel loan was floated nor any fell due for repayment during the year under review.

Repatriation of Sterling Debt.

As in the previous accounting year, the operations regarding the repatriation of sterling stocks were confined to the repayment of the repatriated stocks not surrendered earlier. The total amount thus repatriated during the year amounted to £2,108,596, the rupee counterparts created aggregating Rs. 44,09,510.

Conversion of Promissory Notes into Stock Certificates and Subsidiary General Ledger Accounts.

The scheme for the conversion of Promissory Notes into Stook Certificates and vice versa (both free of charge) first introduced in 1942 continued to be in operation during the year. The amount of conversion and reconversion came respectively to Rs. 21.95 crores and Rs. 45.82 crores during the year, the aggregate figures for the entire period from 1st March, 1942, to the end of June, 1948, amounting to Rs. 378.57 crores and Rs. 141.59 crores respectively. Institutional investors continued to avail themselves of the facility given by the Bank since 1942 to hold their securities in Subsidiary General Ledger Accounts, and at the end of March, 1948, 45.99 per cent of the total rupee debt was held in such Accounts.

Government Securities Market.

A generally steady tone during the first half of the year despite the abnormal political and communal situation, a somewhat easy tendency during the next quarter, and steady and quiet conditions again towards the close were the main features of the Bombay gilt-edged market during the year under review. The Economic Adviser's index number of Government securities (1927-28-100) which stood at 117.9 in June, 1947, fluctuated between 117.6 and 117.3 during the first six months except in November, 1947, when it was lower at 115.6. However, it dropped to 114.3 by April, 1948, but recovered to 114.9 in May, 1948. The average for eleven months ended May, 1948, ruled lower at 116.6 as compared with 120.3 for the ten months ended May, 1947. As for the pattern of yields at the close of the year, it was noticed that while those on the short-dated loans were generally slightly lower in June, 1948, than those prevailing in June, 1947, the yields on medium and long-dated issues were a shade higher, a few of the longer-dated issues even crossing the 3 per cent level.

In continuation of the steady tone witnessed towards the close of last year, the market ruled remarkably steady till November, when a temporary and slight recession was in evidence. A steady feeling was, however, restored in December due to such factors as the Central Government's efforts to consolidate the progress so far made towards cheap money coupled with the absence of any large-scale borrowing by the Government, as well as the absence of any new measures of taxation in the interim budget.

From January, 1948, onwards, a slightly easy tendency appeared to have set in, culminating in a sharp fall in prices towards the close of March and in the first week of April, 1948, due to the operation of some abnormal factors, such as reports regarding heavy sales of securities, mostly for reinvestment in bullion, by interests in Indian States, and the uncertainty regarding Kashmir and Hyderabad. The apparent delay since 1st March, 1948, in the announcement of the redemption of the $2\frac{3}{4}$ per cent Loan, 1948-62 which fell due optionally for repayment on 1st June, 1948, also seemed to cause some hesitancy among the investors. However, the announcement on 14th April, 1948, of the repayment of this loan on 15th July, 1948, as well as anticipations regarding the issue of a $2\frac{3}{4}$ per cent medium-dated loan followed by the actual announcement of the flotation of a further issue of the $2\frac{3}{4}$ per cent Loan, 1962 on 1st June, 1948, had a salutary influence on the market, which grew steadier in May and continued to be so in June, 1948. During this year also, prices were sustained to a considerable extent, as in last year, by the extension of official support which, as warranted by circumstances, had to be of a discriminating nature.

The following table indicates the trend of prices and yields of some representative securities during the year.

Loan	Opening 2-7-47 (1)	Highest (2)	Lowest (3)	Closing 30-6-48 (4)	Yield on (1) (5)	Yield on (4) (6)
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	%	%
3% Loan 1949-52 ..	102 9	102 9	101 0	101 6	1.74	1.71
3% Loan 1953-65 ..	102 15	103 0	101 12	102 11	2.47	2.43
3% Loan 1957 ..	102 15	102 15	100 10	101 13	2.67	2.77
3% Loan 1963-65 ..	102 4	102 4	99 0	100 7	2.32	2.96
3% Loan 1970-75 ..	101 15	102 1	99 0	99 9	2.89	3.02
3% Loan 1986 or Later (Conversion Loan of 1946) .	101 2	101 6	97 5	98 1.2	2.97*	3.04*

* Flat yield.

Industrial Share Market.

The industrial share market, in contra&, ruled continuously easy during the year except for a minor rally in December, 1947. The Eoonomio Adviser's general. index number of prices of variable yield securities (1927-28=100) for the eleven months ended May, 1948, averaged lower at 183 .O as compared with 261.2 for the ten months of the corresponding period of the preceding year. The prices at the close of the year also kept lower than those at the close of last year, the general index for May, 1948, being 173.3 as against 200.3 for June, 1947, representing a decline of 13.4 per cent.

The bearish tendency witnessed since September, 1946, continued almost unabated during the greater part of 1947, the main factors affecting the market being fears and doubts as regards various factors in the political, economic and financial spheres, e.g., the partition of the country, oommunal riots, Government's economic policies, particularly in the matter of removal of control over the distribution and prices of commodities, regulation of the stock exchanges by Government, and the probability of limitation of dividends and the introduction of profit-sharing, as well as a tendency for profits to show a marked decline due to rising costs of commodities and Iabour.

Slightly better conditions were discerned during December following the presentation on 26th November of the Indian

Government's Interim Budget for 1947-48, which contained no additional taxation proposals and, on the contrary, held out hopes of reduotion. An easy tendency, however, again set in from January, 1948, culminating in a sharp break on 1st April, 1948. A general feeling of weakness seemed to have crept in since the end of February, 1948, following the Central Government's Budget proposals for 1948-49 which retained the Business Profits Tax at 10 per cent as against the expectation by the market of its complete removal. Other bearish factors were the introduction of the Estate Duty Bill in the Dominion Parliament on 22nd March and the weakness of the gilt-edged market. The Labour Minister's speech in the Dominion Parliament on 31st March, 1948, emphasising the need for not only profit-sharing but also labour co-partnership further accentuated the downward tendency.

A quiet and hesitant tone prevailed during the rest of the year under the influence on the one hand of favourable factors such as the approval by the Dominion Parliament of the resolution embodying Government's industrial polioy indicating the demarcation of the industries between private and State enterprise, the rise in cotton textile prices consequent on the removal of cloth control and the rumours about possible increase in steel prices, and on the other, of such bearish factors as the adverse news regarding the Hyderabad situation and fears regarding the possibility of acquisition by the Government of the textile industry units if cloth prices did not come down.

Money Market.

In peace-time, conditions in the money market in India vary according to slaak and busy seasons, being generally easy in the first and last quarters of the year and stringent in the second and third, although this year during the last quarter the money rates did not record a decline. The inter-bank call rate which was ruling at ½ per cent at the end of last year continued to be quoted nominally at that level throughout the year under review. The three months' deposit rate remained steady at its previous closing level of ¾–1 per cent till 9th August, 1947, when it eased to ½–¾ per cent and remained at that level till 27th February, 1948. From 28th February, however, it improved to 1–1¼ per cent at which level it closed for the year. The six months' fixed deposit rate which was quoted at 1–1½ per cent at the end of last year remained steady till 8th August, 1947. Between 9th August and 28th November, however, it ruled lower at f-1 per cent, rising thereafter by stages to 1¼–1½ per cent. The twelve months' rate which was ruling at 1½–1¾ per cent at the close of last year oontinued to be quoted at that level till 5th February, 1948, when it improved to 1¾–2 per cent at which level it continued till 30th June.

Scheduled Banks.

During the year under review, 5 banks were included in the Second Schedule to the Reserve Bank of India Act, while 3 banks were excluded from it thus bringing the total number of scheduled banks to 99. (The names marked with an asterisk in the list of soheduled banks appended to this Report indicate the additions to the schedule during the year.) The usual inspection before inolusion was dispensed with in the case of 2 banks which appeared *prima facie* to satisfy the conditions laid down in Section 42 (6) of the Reserve Bank of India Act. The other 3 banks were inoluded in the schedule after an investigation into their affairs. Applications from 12 banks were under consideration at the end of the year.

In the Dominion of Pakistan one bank was declared as a Pakistan soheduled bank and was included without the usual inspection.

The table given below compares the position of the scheduled banks as on 27th June, 1947 and 25th June, 1948.

(In thousands of rupees)

	27th June, 1947	25th June,* 1948	Difference + or —
1. Demand Liabilities . .	667,25,69	780,71,11 (86,89,36)	+ 1,13,45,42
2. Time Liabilities . .	346,44,56	330,12,47 (18,51,30)	-- 16,32,09
3. Cash in hand	44,77,43	43,51,06 (3,70,19)	— 1,26,37
4. Balances with the Reserve Bank . .	97,74,08	102,63,34	+ 4,89,26
5. Advances	413,64,60	468,40,85 (32,86,20)	+ 54,76,25
6. Bills discounted . .	15,16,16	16,38,16 (61,81)	+ 1,22,00

• Figures for Pakistan are given below the consolidated figures for Indict and Pakistan.

In contrast to the trend noticed during the last [illegible] the total of demand and time liabilities of the scheduled banks, apart from occasional fluctuations, generally showed an upward trend throughout the year under review and stood at Rs. 1,110.84 crores on 26th June, 1948, as against Rs. 1,013.70 crores on 27th June, 1947. The war-time tendency of demand liabilities to grow more strikingly than time liabilities, which in the previous year showed signs of weakening, reappeared during the year, presumably due to the re-imposition of stricter import restrictions and the general preference for liquidity shown by the public owing to widespread diuturhances, their proportion to total deposit liabilities rising from 65.82 per cent on 27th June, 1947 to 70.28 per cent on 25th June, 1948. The time liabilities, as a result, were lower at Rs. 330.12 crores 'on 25th June, 1948, as against Rs. 346.45 crores at the end of last year. The scheduled banks' cash in hand also declined to Rs. 43.51 crores on 25th June, 1948, as against Rs. 44.77 crores 'at the end of last year. However, their balances with the Reserve Bank of India were higher at Rs. 102.63 crores as against Rs. 97.74 crores at the end of the previous year. The excess over the statutory minimum, however, declined slightly from Rs. 57.45 crores at the end of the previous year to Rs. 57.00 crores at the end of the year under review. Advances recorded a further increase during the latter half of the year mainly due to the conditions arising from the adoption of the policy of gradual decontrol by Government and stood at Rs. 468.41 crores at the end of the year as against Rs. 413.65 crores at the end of last year. The proportion of advances and bills discounted to total liabilities rose from 42.30 per cent on 27th June, 1947, to 43.64 per cent on 25th June, 1948.

During the year under review, 12 banks including 2 Provincial Co-operative banks approached the Reserve Bank of India for financial accommodation, the total amount of loans granted being Rs. 2,28.80 lakhs as against Rs. 2,994.10 lakhs advanced to 25 banks in the previous year.

The total number of offices of the Indian scheduled banks including head offices, branches, pay offices, etc., declined from 3,566 on 30th June, 1947, to 3,490 on 30th June, 1948, a decrease of 76 as against an increase of 421 in the previous year. This reduction was partly the result of the disturbed conditions in the country in the post-partition period, which necessitated the closure of a number of offices by the scheduled banks and partly due to the operation of the Banking Companies (Restriction of Branches) Act, 1946. The newly scheduled banks accounted for an addition of 79 offices. During the year under review, 26 new offices were opened at places which were not previously served by a scheduled or a non-scheduled bank with capital and reserves of over Rs. 50,000.

Non-scheduled Banks.

The total number of non-scheduled banking companies registered and working in India and Pakistan and submitting their returns under Section 277 L of the Indian Companies Act (as applied to both the Dominions) was 685 at the end of 1947 as against 659 at the end of 1946, their total demand and time liabilities being Rs. 45.49 crores as against Rs. 78.44 crores at the end of 1946. The large reduction in the deposits of these banks obviously appears to be the result of disturbances in certain parts of the country. Further, the ratio of their cash to total demand and time liabilities declined from 8.4 per cent in 1946 to 7.14 per cent in 1947.

Among the above non-scheduled banks, 177 banks having demand and time liabilities of Rs. 1.77 crores were submitting returns under Section 277L of the Iudian Companies Act (as applied to Pakistan). Their ratio of cash to total demand and time liabilities was 7.99 per cent.

During the course of the year, three non-scheduled banks 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. Three non-scheduled banks were excluded from the list of which one was admitted to the Second Schedule to the Reserve Bank of India Act and thus beoame eligible for better remittance facilities, while the other two were deleted from the list as they ceased to carry on banking business. Consequently the total number of non-scheduled banks and indigenous bankers in this list remained unchanged at 78 and 5 respectively.

The additional faoility of opening accounts with the Reserve Bank of India afforded to the non-scheduled banks with effect from 16th February, 1945, was continued during the year under review and applications from 3 non-scheduled banks were received for opening accounts as against 6 from non-scheduled banks and 2 from co-operative banks last year. Of these, 2 applications were accepted and one rejected.

Withdrawal of Remittance Facilities to Pakistan.

In view of the termination of the joint monetarv arrangements between India and Pakistan on 36th June, 1948, the existing remittance facilities between India and Pakistan under the Reserve Bank's scheme introduced in Ootober, 1940, have been withdrawn with effect from 1st July, 1948.

Statistical Tables Relating to Banks in India.

The issue of the Statistical Tables Relating to Banks in India for the year 1946 was published during the year under review. The work of compiling tbe Tables for the year 1947 is in progress.

Operations of the Issue Department.

The balance sheet of the Bank as on 30th June, 1948, 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.

The total of the balance sheet of the Issue Department again recorded a rise during the year, having increased by Rs. 86.78 crores to Rs. 1,351.09 crores or by 6.78 per cent as against 0.90 per cent during the year 1946-47.

On the liabilities side, notes in oirculation stood at Rs. 1,320.43 crores, showing an increase of Rs. 96.88 crores as against a decrease of Rs. 13.32 crores in the previous accounting year. The amount of notes in oirculation fell from Rs. 1,223.55 crores on 30th June, 1947 to Rs. 1,173.59 crores on 26th September, 1947, owing mainly to the advent of the slack season but thereafter rose moderately and stood steady around Rs. 1,200 crores till the end of November. But with the progress of the busy season and the decline in Government balances, additions to notes in circulation raised the amount which stood at Rs. 1,320.43 crores at the end of the year. Of this total, Rs. 61.57 crores were accounted for by Pakistan notes which were issued from 1st April, 1948, according to the Pakistan (Monetary System and Reserve Bank) Order, 1947.

On the assets side, " Gold Coin and Bullion " continued unchanged at Rs. 44.42 crores at the statutory rate of valuation of Rs. 21-3-10 per tola, wbile the sterling securities also remained unchanged at the level of the previous year of Rs. 1,135.32 crores. The percentage of gold and sterling securities to total notes issued fell from 93.24 to 87.32 at the end of the year. " Rupee Coin " which inoludes Government of India one rupee notes increased from Rs. 27.73 crores as on 30th June, 1947 to Rs. 43.61 crores as at the end of June, 1948. Of this, Rs. 3.32 crores were accounted for by Pakistan Rupee Coin. The Bank received from the Central Government Rs. 5 crores of "Rupee Coin" during the year in terms of sub-section (2) of section 36 of the Reserve Bank of India Act. " Rupee securities " remained steady at Rs. 57.84 crores till January, 1948, but thereafter steadily rose and stood at Rs. 127.84 crores at the end of the year.

Operations of the Banking Department.

The total of the balance sheet of the Banking Department fell from Rs. 548.41 crores on 30th June, 1947 to Rs. 480.83 crores on 30th June, 1948, or by 11.23 per cent as against a decline of 11.25 per cent in the previous accounting year. The fall is mainly due to the decrease in " Central Government deposits " on tbe liabilities side and in " Balances held abroad " and " Investments " on the assets side. The combined deposits of tbe Central Governments fell by Rs. 106.40 crores to Rs. 284.30 crores as against a reduction of Rs. 66.73 crores in the previous accounting year. The fall is presumably accounted for by the deficit in the combined revenue and capital budget of the two Governments. As a consequence of the partition of the country into the Dominions of India and Pakistan with effect from 15th August, 1947, the figures of deposits of both the Governments began to be shown separately. The deposits of the Central Government of India after rising to Rs. 370.81 crores on 28th November, 1947, evinced a declining tendency till the third week of February when they stood at Rs. 259.91 crores. Thereafter they fluctuated between Rs. 228.58 crores and Rs. 267.47 crores during March and April. They again declined from the first week of May closing at Rs. 215.03 crores at the end of the year. The deposits of the Central Government of Pakistan which stood at Rs. 19.82 crores on 22nd August, 1947, declined continuously and reached the low of Rs. 1.40 crores on 26th December, 1947. However, in January they jumped up to Rs. 45.84 crores, on the transfer by India of Pakistan's share of the cash balances of the undivided Central Government, and stood at Rs. 69.27 crores at the end of the year under review. The deposits of banks, however, fluctuated between Rs. 123.88 crores on 29th August, 1947 and Rs. 78.90 crores on 26th March, 1948 and stood at Rs. 103.21 crores at the end of the year. The fluctuations were mainly accounted for by the preparedness of banks for unsettled conditions in the country consequent on partition as also by the seasonal demand for funds. On the assets side, "Balances held abroad" fell by Rs. 29.48 crores from Rs. 430.82 crores to Rs. 401.34 crores at the end of the year, the fall being mainly due to the utilisation of funds for financing imports of foodstuffs, raw materials and other essential goods. Investments also declined by Rs. 16.08 crores from Rs. 66.94 crores to Rs. 60.86 crores.

Division of the Assets of the Reserve Bank of India.

The procedure for the division of assets of the Reserve Bask of India has been laid down in the Pakistan (Monetary System and Reserve Bank) Order, 1947 as amended in March 1948. Pakistan's share of the assets of the Issue Department would be equal, subject to the adjustments enumerated in the 'Order,' to the total liability in respect of Pakistan notes outstanding on 30th June, 1948 and India notes which were legal tender in Pakistan on that date or in respect of which the rights of encashment in Pakistan existed on that dote and which the Government of Pakistan might aaaept at par until 30th June, 1949. The various classes of these assets were to be transferred in the proportion in which they were held by the Bank on 30th June, 1948, adjustments being made, as provided in the 'Order'. Provision was also made for the discharge of the Bank's obligations in the Banking Department in Pakistan and for the division of the Reserve Fund end profits of the Bank.

Nationalisation of the Reserve Bank of India.

The Hon'ble Finance Minister announced in the Constituent Assembly (Legislative) on 4th February, 1948, that the nationalisation of the Reserve Bank of India would be effected as soon as possible after 30th September, 1948 when as originally decided the Reserve Bank would cease to be a common banker for India and Pakistan. He added that it was the Government's intention to acquire the shares of the Bank at the average of the monthly market value of the shares during the period March, 1947 to February, 1948, taking the opening quotations for each month, and to issue to the shareholders in lieu thereof three per cent long-dated stock of equivalent value and of appropriate maturity.

The Board, after careful consideration of the issues involved, were of the opinion that the decision to nationalise the Reserve Bank was premature at the present stage of the country's political and economic development and that such a step may be fraught with very great danger which cannot be fully foreseen at present, and passed a resolution accordingly which was forwarded to Government. Government intimated that, after very careful consideration, they had come to the conclusion that the balance of advantages lay in nation&sing the Reserve Bank and saw no reason to modify the policy to which they had committed themselves. Proposals for implementing the policy have therefore been drawn up, on the basis that only the minimum changes necessary to give effect to the change of ownership should be embodied in the necessary legislation leaving the operational and other features of the present organisation undisturbed.

Agricultural Credit Department.

The Agricultural Credit Department continued as before to study the problems connected with the co-operative movement, land mortgage banks, debt legislation, regulation of money-lending, warehousing legislation, marketing and other cognate matters. The services of the Department were utilised by co-operative banks, Registrars of Co-operative Societies and Governments for consultation and it is somewhat gratifying to note that approach to the Agricultural Credit Department for the purpose has been greeter than before, though not to the extent desirable. The Board continued to evince a keen interest in the working of the Department throughout the year.

Apart from the studies made in the Department itself, the Chief Officer went out on tours more frequently than before with the main aim of maintaining a close contact with the practical working of the movement in the various provinces and states. His impressions on the working of the movement in the areas visited by him as also suggestions for improvement and development have been conveyed to the Registrars, besides specific suggestions given on the spot to particular institutions visited, wherever he felt such suggestions were needed. During the year under report, the Chief Officer paid a visit to Ceylon (where, among other things, the consumers' movement has made marked progress) with a view to study the working of the movement in that island and to find out if any and what lessons it could offer to the movement in India. Besides, he attended all important co-operative conferences and took part in their deliberations. He is also serving on the Co-operative Sub-Committee set up by the Government of India in January, 1948, in accordance with a resolution of the Fifteenth Registrars' Conference to consider certain problems pertaining to the ao-operative movement.

The Government of India recently requested us to prepare a scheme for the establishment of a Central Agricultural Finance Corporation for India. In this connection, the Department studied all important literature on the subject including the 'working of similar institutions in foreign countries. A seheme together with a draft Bill for the setting up of such a central corporation was prepared and forwarded to the Government of India.

As regards publications, the Agricultural Credit Department issued the Statistical Statements relating to the Co-operative Movement in India for the years 1943-44 and 1944-45 and a pictorial supplement thereto entitled " Thirty Years of Co-operation in India 1914-16 to 1944-45 " during the earlier part of the year. These were followed by the issue of the Statistical Statements for the year 1945-46 also, towards the close. The Review of the Co-operative Movement, which, after its first issue in 1940, remained suspended on account of paper shortage, was also published during the year. The Review covers the period 1939 to 1946.

There is a feeling among co-operators that the Reserve Bank's attitude in the matter of accommodation to co-operative banks is not very favourable. Every endeavour has been made to dispel such a notion. Indeed, there is now a greater approach to the Bank from the Provincial Co-operative Institutions for accommodation. Particularly during the year under report, credit limits against bills or promissory notes drawn for financing seasonal agricultural operations or marketing of crops at a special concession rate of 1½ per cent below the Bank Rate were sought for by some Provincial Co-operative Banks to a considerably larger extent than ever before and were sanctioned almost to the full extent asked for.

Department of Banking Operations.

The Department of Banking Operations continued to deal with all problems relating to the scheduled and non-scheduled banks both in India and Pakistan and to keep a close watch over their affairs. Among the more important activities of the Department may be mentioned the inspection of banks on behalf of the Government of India in terms of Section 42

(6) of the Reserve Bank of India Act, 1934, and the Banking Companies (Inspection) Ordinace, 1946, the examination of applications under the provisions of the Banking Companies (Restriction of Branches) Act, 1946, the examination of applications for issue of capital forwarded by the Governments of India and Pakistan for Reserve Bank's opinion and in general the tendering of advice on banking and financial matters to banks and Governments. The Department also generally supervised the working of the Banking Companies (East Punjab and Delhi) Ordinance, 1947, and the Banking Companies (Pakistan) Ordinance, 1947, to ensure that the banks which were granted a moratorium under the Ordinances carried out the conditions laid down by the Governments under the Ordinances.

During the year under review, a permanent branch of the Department in aharge of a Deputy Chief Officer was established at Madras. The branch started functioning from 17th May, 1948.

Banking Legislation.

It was mentioned in the previous year's Report that the report of the Select Committee on the Banking Companies Bill, 1946, was presented to the Legislative Assembly on 17th February, 1947, and that owing to other heavy legislative programme, the Bill could not be taken up for final consideration during the 1947 Budget Session. As it was the original intention of the Government of India that the Bill should be taken up for disposal by the Constituent Assembly (Legislative) in the form in which it emerged from the Select Committee and that the changes necessitated in the Bill, as a result of the passing of the Indian Independence Act, 1947, and other developments, should be moved in the House as separate amendments, a motion for the continuance of the Bill from the old Assembly was adopted by the Constituent Assembly (Legislative) on 17th November, 1947. In view, however, of a fairly large number of amendments, Government considered that the passage of the measure would be facilitated if the Bill as reported upon by the Select Committee were withdrawn and a fresh Bill incorporating all the amendments were introduced and referred to a Select Committee. Accordingly, the Bill was withdrawn from the Constituent Assembly (Legislative) on 30th January, 1948, and a new Bill, entitled the Banking Companies Bill, 1948, incorporating the necessary amendments, was introduced on 22nd March, 1948.

The Reserve Bank of India (Temporary Amendment) Ordinance, 1947.

Pending the enactment of the Banking Companies Bill, the Reserve Bank of India (Temporary Amendment) Ordinance, 1947, was promulgated by the Government of India on 20th September, 1947. The Ordinance amended Section 18 (3) of the Reserve Bank of India Act, 1934, so as to enable the Bank to grant emergency advances to scheduled and non-scheduled banks against such form of security as it msy oonsider sufficient. However, as the Reserve Bank had no oocaeion to grant such advances under the Ordinanoe it was allowed to lapse on 20th March, 1948.

The Basking Compeniee (East Punjab and Delhi) Ordinance, 1947, end the Banking Companies (Pakistan) Ordinance, 1947.

After the partition of the country into the Dominions of India and Pakistan, it was found that a few middle-sized and small banks with registered offices in the East Punjab and Delhi had most of their assets in the West Punjab while the bulk of their deposit liabilities had been transferred to their branches in India. In view of this position and the difficulties regarding access to their records or assets in the West Punjab, some of these banks found it difficult to make any immediate arrangements for meeting the claims of their depositors. With a view to avoiding damage to the banking structure of the country and unnecessary distress to the depositors, many of whom were refugees, it was necessary to give temporary assistance to such banks and their depositors, and on 27th September, 1947, the Government of India, in consultation with the Reserve Bank, promulgated the Banking Companies (East Punjab and Delhi) Ordinance, 1947. The Ordinance empowered the Central Government to make an order staying for a period of three months the commencement or continuance of all actions and proceedings against a banking company applying in this behalf whose registered office was situated in the Province of the East Punjab or Delhi. The Government of Pakistan also promulgated a parallel Ordinance, the Banking Companies (Pakistan) Ordinance, 1947, on 22nd October, 1947, but without any provision for Government assistance. The Ordinances lapsed on 27th March, 1948, and 22nd April, 1948, respectively.

The Negotiable Instruments Act and the Indian Limitation Act (Temporary Amendment) Ordinance, 1947.

During the year 1947, it was brought to the notice of the Reserve Bank that banks were experiencing considerable difficulty in dealing with bills drawn on firms and companies situated in the Punjab and other disturbed areas. In order, therefore, to safeguard the interests of banks to the greatest possible extent, the Government of India, on the recommendation of the Reserve Bank, promulgated on 27th December, 1947, the Negotiable Instruments Act and the Indian Limitation Act (Temporary Amendment) Ordinance, 1947, temporarily amending the Negotiable Instruments Act, 1881, and the Indian Limitation Act, 1908. By this Ordinance, a new section, namely, Section 75B, was added to the Negotiable Instruments Act which gave the banks power to treat bills as dishonoured when presentment was impossible owing to the prevalence of riots or other disturbances. By the same Ordinance Section 5A was inserted in the Indian Limitation Act whereby any suit, which could not be instituted on and after 1st August, 1947, or after the coming into force of the Ordinance within the period of limitation on account of the prevalence of riots or other disturbances, could be admitted after the period of limitation prescribed therefor when the plaintiff satisfied the Court that he was unable to institute the suit within such period owing to disturbances. The Government of Pakistan, at the request of the Government of India, issued a parallel Ordinance on 13th February, 1948.

The Ordinance promulgated by the Government of India was allowed to lapse on 27th June, 1948, as the conditions necessitating the provisions ceased to exist. The Government of Pakistan have extended the duration of the Ordinance for a further period of three months with effect from 13th May, 1948.

Bank Inspections.

During the year, 12 hanks were inspected under the Banking Companies (Inspection) Ordinance, 1946, and 4 under Section 42 (6) of the Reserve Bank of India Act. Reports on 16 banks, including those on 11 banks inspected during the previous year, were forwarded to Government. Action in terms of the Ordinance was taken against 11 banks of which 9 were inspected during the previous year.

The Banking Companies (Restriction of Branches) Act, 1946.

The Reserve Bank of India continued to receive applications for opening new branches in terms of the Banking Companies (Restriction of Branches) Act, 1946. 279 applications were disposed of during the year of which 135 were for opening 328 new branches and 144 for changing the location of 159 existing branches. Licences were granted to open 228 branches (including 63 branches in Pakistan) and for changing the location of 155 branches (including 15 branches in Pakistan). Among the licences granted for opening new branches, 33 were for opening temporary branches including 25 branches in Pakistan. The total number of applications disposed of by the Reserve Bank of India since the commencement of the Banking Companies (Restriction of Branches) Act, 1946 up to 30th June, 1948, was 416, of which 202 were applications for opening 471 branches and 214 for changing the location of 243 existing branches.

Control of Capital Issues.

Control continued to be exercised over the issue of capital during the year under review under the Capital Issues (Continuance of Control) Act, 1947. During the eleven months ended May, 1948, sanction was given to 406 companies for an issue of Rs. 136.77 crores as against 612 companies for Rs. 355.15 crores during the corresponding period of the previous year. The total number of companies permitted to issue capital and the amount sanctioned since the inception of the control in May, 1943, were 5,474 and Rs. 831.79 crores respectively. The following table gives the groupwise distribution of consents. Figures upto 14th August, 1947, relate to undivided India while those subsequent to it relate only to the Dominion of India.

Classification	Number of Companies	Amount allowed (Rs. crores)
Industrial	2,813	489.39
Agricultural . . . , , ...	377	29.52
Financial	785	132.43
Trade and Transport	1,133	150.62
Other Services	366	29.93
Total Non-Industrial	2,661	342.40
Grand Total (Industrial and Non-Industrial)	6,474	831.79

Since the promulgation of the Defence of India Rule 94A on 17th May, 1943 to the end of the year under review, the Reserve Bank of India has been called upon to give its opinion on 1,083 applications from the existing banks or proposed banking companies for issue of capital, some of the banks having applied more than once. Out of the 1,083 applications, 437 were recommended for acceptance, 637 for rejection and 9 were returned without comments to the Governments concerned. The number of applications received during the year under review was 66 of which 18 were reoommended for acceptance, 39 for rejection and 9 were returned to the respective Governments without comments.

Department of Research and Statistics.

The Department of Research and Statistics continued to issue monthly the Reserve Bank of India Bulletin which completed its first year of publication in December, 1947.

The Monetary Division issued in May, 1948, the " Statistical Tables Relating to Banks in India for the year 1946." The results of the Second Survey of the ownership of demand deposits of the scheduled banks were published in the April, 1948 issue of the Bank's monthly bulletin. Besides the preparation of a number of notes in connection with the enquiries reoeived from the Government, the more important studies undertaken in the Division during the year include (1) Pakistan's requirements of (a) Small Coin and (b) Inscribed Pakistan Notes, during the first year of their issue, 1948-49, (2) Limitation of Return on Capital, (3) Stook Exchange Reform, (4) U.S. Publio Debt Pattern, (5) The Present Price Situation in India, (6) Recent trends in gilt-edged markets and (7) The Future of cheap money. Some of those have been published in the Bank's monthly bulletin.

The Government of India issued a notification on 23rd October, 1947, conferring upon the Bank necessary powers to call for such information as the International Monetary Fund may require, from all persona concerned, in regard to the items included under Article VIII, Section 5 of the International Monetary Fund Agreement, In pursuance of this the Division has collected detailed information in regard to gold and foreign exchange assets and liabilities of the Central Government, the Reserve Bank of India and Scheduled Banks.

In view of the importance of having scientifically accurate information on balance of payments and the need for compiling it with as little loss of time as possible, two officers of the Research Department-the offioiating Director of Monetary Research and the Statistician—were deputed to study the methodology of compilation in the U.S.A., Canada and the U.K. During their visits to these countries the two officers also availed themselves of the opportunity to study the organisation and working of various governmental and private research and statistical organisatione. The work of organising a separate balance of payments Division as a part of the Research Department is now on hand.

The officiating Director of Monetary Research aooompanied the Governor who went to London in May, 1948, as a member of the Indian delegation for the negotiation of an Agreement on sterling balanaes.

Tho Division of Statistios continued to compile the Statistioal portion of the Bank's monthly bulletin. The work in connection with the oompilation of index numbers of (1) Wholesale Prices, (2) Socurity Prices, (3) Bullion Prices, (4) Industrial Production and (5) Mineral Production was completed and memoranda on these are being circulated for comments. The experimental work undertaken last year to investigate into the applicability of sampling technique in the field of bank inspection was completed during the year and a report was submitted to the Deputy Governor. The sampling technique is also being tried out in other dire&ions such as certain investigations conducted by the Exchange Control Department. Further, the Division suggested stratified sampling schemes for (i) estimating the advanoes of scheduled banks and (ii) a survey of rural indebtedness in two talukas in the Thana District. The Division examined the present methods of compiling statistics in the E.C.D. and recommended the adoption of punch card system for their work. The recommendation has been accepted by the Bank.

The Division receives regularly annual balance sheets of Joint-Stock Companies from the Provincial authorities and a scheme for the study of these balance sheets by the method of " Sources and Uses of Funds " analysis is now well under way. The notes prepared during the year include (1) Economic Consequences of Partition with speoial reference to Agriculture and Population, (2) Estimates of circulation of rupee coin for the years 1935-1943, (3) Yield on 4 per cent Victory Bonds, (4) Industrial Finance Corporation and Quality Control and (6) a note on the Compilation of National Income Statistics for India.

The Director of Statistics was deputed to attend the World Statistical Conference held between 6th and 18th September, 1947 in Washington. The Statistician also attended this Conference and both the Director of Statistics and the Statistician were delegates to the Balance of Payments Conference held under the auspices of the International Monetary Fund during 22nd to 26th September, 1947.

The Division of Rural Economics continued to work on the Survey of rural indebtedness in the Bombay Province referred to in the last year's Report, the work of tabulating the data collected from the Pandharpur-Sangola Debt Adjustment Board was completed and the report analysing and interpreting the data is being examined by the Director. The survey of rural indebtedness in Murbad taluka in Thana district, has now been undertaken. The Division proposes to undertake, in association with the Indian Council of Agricultural Research, a survey of the present economic and financial conditions of some villages round about Delhi. These villages have been selected by the Council to implement, as an experimental measure, a scheme for the intensive application of scientific methods of agriculture and animal husbandry. A comprehensive study of the Indian Food Problem was published in the Reserve Bank Bulletin in two instalments.

The Director of Rural Economics attended among others, (1) the Sixth International Conference of Agricultural Economists, held at Dartington Hall, Devon, England, from 28th August, 1947 to 7th September, 1947 (where he read a paper on the " Mechanisation of Agriculture in Economies with High Pressure of Population on Land " which was published in the Bank's monthly bulletin), (2) the Tenth Conference of the Institute of Pacific Relations held at Stratford-upon-Avon between 17th and 20th September and (3) the Conference of the United Nations Economic Commission for Asia and the Far East held between

1st June and 12th June, 1948. The Director's reports in respect of the first two conferences were also published in the Reserve Bank of India Bulletin. In addition, the Director toured, towards the close of March, the Province of Madras, Travancore, Cochin and Mysore to acquaint himself with the food supply position prevailing in those parts of the country where a food crisis had been apprehended.

Sterling Assets.

The sterling assets of the Reserve Bank declined during the year by Rs. 29.48 crores as compared with a net decrease of Rs. 128.25 crores *in* the preceding twelve months. This decline appears to have resulted mainly from a deficit in the country's international transactions on current account caused among other factors by heavy imports of food on Government account as well as by permissible capital transfers. The total holdings in the Issue and Banking Departments as on 30th June, 1948, amounted to £1,152.50 million or Rs. 1,536.67 crores which are maintained in the form of cash and investments in short-term British Government securities. The rapid depletion of these assets during the latter half of the last accounting year 1946-47 caused anxiety as it was felt that these balances, which represented almost the entire foreign exchange reserves of the country, should not be used to finance the normal current external deficit, which should rather be met from the earnings of current exports, and that the accumulated reserves should be drawn upon only for the purpose of importing essential capital goods required for maintaining and increasing the country's productive capacity in agriculture, industry, transport and power generation. The Government, therefore, decided to follow, from July, 1947, a more restrictive policy in respect of imports the effects of which, together with those of the expansion in exports, were reflected in the rise in the Bank's sterling holdings during the greater part of the second half of the accounting year under review.

As noticed earlier, the first interim Sterling Balanees Agreement for the period ended 31st December, 1947, which was signed in London on 14th August, 1947, provided for the distribution of India's sterling balances into two accounts with the Bank of England, viz., (1) the No. 1 Account to which were credited, together with current sterling receipts, a release of £35 million and a working balance of £30 million, the balance in this account being made available for payment for current transactions anywhere in the world ; and (2) the No. 2 Account in which the remainder of the accumulated balances were held and made available only for certain types of capital transactions and the payment of pensions, gratuities and provident funds outside India. It was also agreed that the sterling assets of the Reserve Bank would be invested so as not to earn a rate of return appreciably higher than the rate earned as on the date of the agreement. This agreement was extended in February, 1948, to be in force till 30th June, 1948, by means of letters exchanged between the representatives of the Government of the United Kingdom and the Governments of India and Pakistan. India was granted a fresh release of £18 million after taking into account the excess of £11 million lying to the credit of No. 1 Account over and above the £30 million working balance previously granted ; and Pakistan obtained a release of £6 million and a working balanoe of £10 million in addition to an amount from the balance in the No. 1 Account due to it under the Indo-Pakistan Agreement of December, 1947. Of the releases granted to Tndia and Pakistan, only £10 million and E3.3 million respectively were to be convertible into hard currencies.

Talks took place again in the month of June in London between tbe representatives of the United Kingdom and the two Dominions for a long-term settlement of the problem of the sterling balances and the terms of the resultant agreement. were made publio on 15th July, 1948.

This agreement has been arrived at after taking into account the needs of India and her absorptive capacity on the one hand and the present difficult economic position of the U.K. on the other. It provides for the release of a sum of £80 million over a period of three years, which, together with the current balance in India's No. I Account of about £80 million constitutes roughly a sum of £160 million available For expenditure over the next three years leaving a reasonably adequate amount of working balance. Also, taking into account the many uncertainties surrounding the position of the sterling area central reserves ol gold and dollars it was agreed that out of this a sum of £15 million is to be made available in dollars and other hard currencies over a period of one year, this amount being available to India in addition to India's current earnings in dollars and other hard currencies, supplemented by borrowings from the I.M.F. if any. Agreement has also been reached over the purchase of military stores and installations by the Government of India at a coat of £100 million and the purchase of a tapering annuity from H.M.G. for the payment. of pensions at a cost of £168 million.

The International Monetary Fund and the International Bank for Reconstruction and Development.

Although the International Monetary Fund commenced its operations from 1st March, 1947, the first exchange transaction took place only towards the end of May, 1947, when the Fund granted stabilization credits of $25 million to France and $12 million to the Netherlands, one half of the latter being in pound sterling. Later, several member countries took advantage of the facilities thus offered and by the end of May, 1948 the Fund's sales of exchange against members' currencies aggregated $620.9 million, the bulk of which comprised sales of U.S. dollars which amounted to $608.1 million. Besides these sales against currencies of members, the Fund sold a small amount of U.S. dollars, viz., $24,165, against gold. In view of the growing deficit in her balance of payments with the United States, India applied for the first time to the Fund for purchase of dollars in March, 1948, and succeeded in securing initially an amount of U.S. $28 million in March followed later by two instalments of $8.06 million each in May and June by tendering the equivalent in rupees.

Along with most of the other members, India opted to avail herself of the transitional arrangements regarding exchange restrictions. The United States, El Salvador, Guatemala, Mexico and Panama were the only countries which declared themselves as willing to accept obligations to remove restrictions on current payments and convertibility and to avoid recourse to discriminatory currency practices. The imbalance in the international payments position of many countries following a deterioration in their economic situation and the need to secure essential goods from certain regions whose currencies were in short supply, necessitated the adoption by some of them of restrictive exchange devices which were not strictly in consonance with the principles of the Fund. But taking note of the existing position and in order to allow time for the gradual emergence of suitable conditions, the Fund, after declaring its policy in respect of multiple currency practices, generally agreed to the adaptation, subject to certain principles, of existing restrictive exchange practices and exchange devaluation in a few countries, in the hope that, by helping to iron out balance of payments difficulties in the immediate future, these measures would enable the countries concerned to establish in the long run a framework of exchange practices which would assist the Fund in achieving its long-term objectives of exchange stability and elimination of exchange restrictions.

During the year under review, the Fund was called upon to take crucial decisions on other important matters arising from international gold transactions above parity and subsidies for gold production. In June, 1947, the Fund issued a directive to all member countries warning them of the undesirable consequences of external sales of gold at prices above monetary parity, and seeking their active co-operation in eliminating such transactions. In December, 1947, the Fund also expressed itself against subsidies to gold production and directed that any member proposing to introduce such subsidies should consult the Fund on the specific measures contemplated. In the light of this, the Canadian Government revised its original proposals to subsidise gold production and the Fund decided after examination that these were not inconsistent with its policy. In April, 1948, the Fund declared that, during the first year of the European Recovery Programme, its attitude, as that of the members participating in the Programme, should be that they should apply for the purchase of U.S. dollars only in case of exceptional or unforeseen hardship, in order that the resources of the Fund may be maintained at a safe and reasonable level so that at the end of the E.R.P. period, such members may have unencumbered access to the Fund's resources.

The International Bank for Reconstruction and Development initiated active operations in May, 1947, when it granted its first and so far the biggest loan of $250 million to France. Later, the Bank granted loans aggregating $263 million to the Netherlands, Denmark, Luxembourg and Chile. The loans are to be repaid gradually over periods varying from 6½ to 30 years and bear rates of interest ranging from 29 to 3½ per cent in addition to a uniform commission of 1 per cent which will help form the Bank's Special Reserve. Except in the case of the loans to Luxembourg and the Netherlands, portions of which are in Belgian francs and Swiss francs respectively, all the loans are in U.S. dollars and are meant, in the case of the European countries, for financing imports of capital goods and equipment essential for the reconstruction and rehabilitation of vital sections of industry affected by the war, and in the case of Chile, for the purpose of hydro-electric and agricultural development. Several member countries have already submitted definite applications for loans while a few others are conducting preliminary negotiations with the Bank authorities before making formal requests for loans.

In July, 1947, the Bank launched in the United States market two series of bonds, one with a maturity of 10 years and the other with a maturity of 25 years, the amount of the issues totalling $250 million. Again in May, 1948, the Bank floated another issue of bonds in the Swiss market to the value of 17 million Swiss francs. The issues of the Bank's bonds in the United States were heavily over-subscribed and the issue in Switzerland was entirely taken up for investment by the Bank for International Settlements.

The second Annual Meeting of the Boards of Governors of the Fund and the Bank held in London in September, 1947, decided that the original quota in the Fund and the subscription to the capital stock of the Bank of the undivided India should continue to be the "quota" and "subscription" of the new Dominion of India. The meeting also elected for 1947-48, the Governor for China as Chairman of the Boards of Governors, and the Governor for India as one of the four Vice-Chairmen, along with the Governors for France, the United Kingdom and the United States and decided that Washington should be the venue for the nest Annual Meeting to be held in September, 1948.

Economic Perspective.

The summary of facts given in the earlier paragraphs outlines in a broad way the country's struggle towards economic stability through tbe problems of post-war transition complicated by the unprecedented problems of partition and mass movements of population. Internationally, signs are visible in many countries of the slow attainment of economic stability, although the continued uncertainty on the political front keeps alive the doubt as to the extent to which this will continue to be maintained. In the United Kingdom and a number of other countries thore was continuing anxiety about the disequilibrium in the balance of payments, but thanks to the generous plan of European financial aid sponsored by the United States, there is a prospect of its being corrected, at least partially, in tbe course of a year or two. With Europe on the road to recovery, the rest of the world may also hope for the emergence of less unstable conditions generally, although there would yet appear to be imperfect recognition of the fact that similar positive action is called for as an essential counterpart of efforts to reconstruct Europe. The organization that is being built up under the good offices of the United Nations to draw together the countries of Asia into a regional unit for a greater measure of economic collaboration is a move in the right direction, but actual progress in the economic regeneration of Asia continues to be limited by the absence of concrete plans for help from the better-placed countries of the Western Hemisphere. The adoption by the Havana Conference towards the end of March, 1948 of the Draft Charter for establishing an International Trade Organization is also indicative of the anxiety of nations to collaborate for the common good. Lastly, the measure of assistance which has started flowing from the International Monetary Fund and the International Bank for Reconstruction and Development to various countries in need of assistance either in the way of temporary accommodation or for financing long-period development is an additional stabilising factor and it would be of interest to watch the unfolding of this great experiment.

It is, nevertheless, true that the influence of these ideas and experiments is no more than a silver lining to the political cloud which continues to overshadow all attempts at economic co-operation between countries and groups of countries ; and in any case it is only after years of toil that experiments of this kind in international co-operation may in a real sense begin to bear fruit. More immediately the fact remains that for India and the countries of the near and far East, it has been, and continues to be, difficult to obtain at reasonable prices such capital goods as are required for even the maintenance of the existing industrial and agricultural production and transport systems, not to speak of further progress in organizing new enterprises. This, added to the other unfavourable factors, such as uncertainty about Government's economic policy, high taxation and transport difficulties, has been holding up the country's development plans and the much needed recovery in production. With the reduction of the tax burden on industry imposed by the 1947-48 budget and by the formulation by the Government early in April of the broad outlines of their economic policy in regard to nationalisation, labour and capital, some signs of improvement became visible in the volume of production and in respect of the capital-labour relations; but a great deal still remains to be done in this direction. In any case the rapidly rising price and cost structure resulting from the introduction of a policy of gradual decontrol now dominates every other aspect of the economy of the country and more than neutralises the little that was being aohieved in the field of production.

It is true that in a number of countries there is a growing recognition that controls cannot be a permanent or satisfactory substitute for the price mechanism for working out an adjustment between the community's resources and wants ; though there is also the equally valid view that controls are a useful, if not even a necessary, expedient during times of emergency and thereafter through a period of transition. Soon after the cessation of hostilities the majority of war-time controls were lifted in the U.S.A. where the climate of public opinion greatly favoured such a course and this, no doubt, has facilitated reconversion to an extent, although it has undoubtedly led to a marked increase in the cost of living. But it cannot be concluded that removal of controls, therefore, is generally the prescription for all countries for regaining economic health. The rate at which readjustment to normality could be induced through the removal of controls will necessarily vary from country to country. In a comparatively backward economy like that of India production is not very elastic to price changes and the degree of scarcity even in regard to the ordinary needs of life is very high. In such an atmosphere where the root of the trouble is not RO much over-spending as under-production, the removal of controls has to be especially slow and cautious. Otherwise the restoration of freedom is likely only to lead to an increase in the price levels, not necessarily accompanied by an increase in production of the required magnitude. In fact in the kind of small-scale agricultural economy which is not geared too well to a market economy it is even likely that increased prices might, at the margin, actually lead to a lower vclume of output. If this were to happen, decontrol can only lead to a high and rapid rise in prices with all the attendant consequences of an inflationary spurt. This undoubtedly is what is being witnessed to-day so vividly in the movement of the price structure in this country.

Next to decontrol is the important influence of a large volume of public expenditure which has been occasioned inevitably by the upheavals following the partition of the country in

August, 1947. Balances with the Reserve Bank of India of the Central and Provincial Governments declined by about Rs. 67 crores in the year (July-June) 1946-47 and by about Rs. 100 crores during the same period in 1947-48, the figure for the latter year including the balances of the Governments of Pakistan. This expenditure has to be incurred and the urgent needs of an uprooted humanity have certainly to be met, whatever tbe cost ; but while that is so, it is as well to recognize that this expenditure adds to the pressure of inflation.

It does not appear that barring the two influences mentioned above there are other causes contributing significantly to the current inflation, except perhaps the uneven distribution of stocks resulting from an over-burdened and possibly ill-adjusted transport system. During the year India's balance of payments position has, on the whole, been adverse to the country, though during certain months we did have a favourable trade balance. There is also no reason to believe that there has been any undue expansion of credit by the banking system. Available evidence indicates, rather, that a due sense of caution and restraint in issuing credit has generally characterised the dealings of banks. The Reserve Bank's purchases of Government securities could not also have materially stimulated credit expansion, since such support as was given to the money market through its open market operations was of a discriminating character. It seems, therefore, that ifs, solution to the problem of the present inflation has to be worked out it should be in relation to the two main causes which seem to have contributed to it. It does not appear appropriate to tackle the problem by a reversal of the rates of interest as both in tne immediate future as well as in the long run the consequences of such a reversal are bound to be adverse to the cause of accelerated investment so direly needed for the country's development. To create an atmospbere of disinflation it seems necessary, therefore, that controls in some form may have to be redevised at least. in the case of the essentials of life like food, clothing, and kerosene and tbis should be coupled with a system of allocating essential raw materials for industry designed to organize production in the required pattern. While it is essential not to slacken vigilance on the monetary and fiscal front-and, indeed, there is room for redoubling effort in some directions as, for instanoe, the stimulation of savings with all the influence and prestige and mass contact that a popular Government can command-the country's central problem is essentially one of good administration end effective execution.

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

Directors Messrs. B. M. Birla and K. P. Goenka wish to place *on* record that they do not subscribe to the views expressed in the Report in connection with controls.

APPENDIX.

Scheduled Banks.

1. Ajodhia Bank.
2. Allahabad Bank.
3. American Express Co., Inc.
4. Andhra Bank.
6. Australasia Bank.
6. Banco Nacional Ultramerino.
7. Bank of Assam.
8. Bank of Baroda.
9. Bank of Behar.
10. Bank of Bikaner.
11. Bank of China.
12. Bank of Communications.
13. Bank of Hindu&an.
14. Bank of India.
15. Bank of Jaipur.
16. Bank of Maharashtra.
17. Bank of Mysore.
18. Bank of Nagpur.
19.* Bank of Poona.
20. Bankers' Union.
21. Bareilly Corporation (Bank).
22. Bengal Central Bank.
23. Bharat Bank.
24. Bharatha Lakshmi Bank.
26. Calcutta Commercial Bank.
26. Calcutta National Bank.
27. Canara Bank.
28. Canara Banking Corporation.
29. Canara Industrial & Banking Syndicate.
30. Central Bank of India.
31. Chartered Bank of India, Australia & China.
32. Comilla Banking Corporation.
33. Comilla Union Bank.
34. Comptoir National D'Escompte de Paris.
35. Devkaran Nanjee Banking Co.
36. Dinajpur Bank.
37. Discount Bank of India.
38. Eastern Bank.
39. Exchange Bank of India & Africa.
40. Gadodia Bank.
41. Grindlays Bank.
42. Habib Bank.
43. Hind Bank.
44. Hindustan Commercial Bank.
45. Hindusthan Mercantile Bank.
46. Hongkong & Shanghai Banking Corporation.
47. Hooghly Bank.
48.* Hyderabad State Bank.
49. Imperial Bank of India.
50. Indian Bank.
61. Indian Overseas Bank.
62. Indo-Commercial Bank.
53. Indo-Mercantile Bank.
54. Jodhpur Commercial Bank.
55. Jwala Bank.
60. Karnani Industrial Bank.
57. Kumbakonam Bank.
58. Lakshmi Commercial Bank.
59. Laxmi Bank.
60. Lloyds Bank.
61. Mahaluxmi Bank.
62.* Mercantile Bank of Hyderabad.
63. Mercantile Bank of India.
64. Nadar Bank.
65. Narang Bank of India.
66. Nath Bank.
67. National Bank of India.
68. National Bank of Lahore.
69. National City Bank of New York.
70. National Savings Bank:
71. Nedungadi Bank.
72. Netherlands India Commercial Bank N.V.
73. Netherlands Trading Society.
74. New Bank of India.
75. New Citizen Bank of India.
76. Noakhali Union Bank.
77. Oriental Bank of Commerce.
78. Oudh Commercial Bank.
79. Palai Central Bank.
80. Pioneer Bank.
81. Prabhat Bank.
82. Pratap Bank.
83. Presidency Industrial Bank.
84. Punjab & Sind Bank.
85. Punjab Co-operative Bank.
86. Punjab National Bank.
87. Southern Bank.
88. South India Bank.
89. South Indian Bank.
90. Tanjore Permanent Bank.
91. Traders' Bank.
92. Travancore Bank.
93.* Travancore Forward Bank.
94. Tripura Modern Bank.
95. Union Bank of India.
96. United Commercial Bank.
97. United Industrial Bank.
98. Universal Bank of India.
99.* Vysya Bank.

Pakistan Scheduled Bank.

1. Bank of Bhopal.

* Included in the Second Schedule during the year ended June 1948.

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