RESERVE BANK OF INDIA

Report of the

Central Board of Directors

for the year ended 30th June, 1949

SUBMITTED TO THE CENTRAL GOVERNMENT
IN TERMS OF SECTION 53 (2) OF THE
RESERVE BANK OF INDIA ACT

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CENTRAL BOARD OF DIRECTORS

Governor	Sir **Benegal Rama** Rau, C.I.E.
Deputy *Governors*	C. R. **Trevor,** Esq., C.I.E. M. G. **Mehkri,** Esq.
Directors *Nominated under* Section 8 (1) (b) *of the Reserve Bank of India Act*	Sir Purshotamdas Thakurdas, K.B.E. C.I.E. B. M. Birla, Esq. Sir Shri Ram. C. R. Srinivasan, Esq.
Directors *Nominated under* Section 8 (1) (c)	Sir Rustom P. Masani. Sir Manilal B. Nanavati. Dhirendra Nath Sen, Esq. Shrinivas, Esq. Dewan Bahadur C. S. Ratnasabapathi Mudaliar, C.B.E. Ramrao Madhaorao Deshmukh, Esq.
Director *Nominated under* *Section* 8 (1) (d)	K. G. Ambegaokar, Esq., I.C.S., Additional Secretary to the Government of India, Ministry of Finance.

MEMBERS OF LOCAL BOARDS

WESTERN AREA

Sir Purshotamdas Thakurdas, K.B.E., C.I.E.

Prof. D. R. Gadgil.

Ramdeo Podar, Esq.

Vaman Pundalik Varde, Esq.

Mathuradas Mangaldas Parekh, Esq.

EASTERN AREA

B. M. Birla, Esq.

Rai Moongtulall Tapuriah Bahadur.

Alec Leslie Cameron, Esq.

Atul Krishna Ghose, Esq.

Jiban Krishna Mitter, Esq.

NORTHERN AREA

Sir Shri Ram.

Satya Paul Virmani, Esq.

Shambu Lal Puri, Esq.

Rai Bahadur Sardar Basakha Singh.

SOUTHERN AREA

C. R. Srinivasan, Esq.

S. B. P. Pattabhirama Rao, Esq.

Rao Bahadur R. R. Iyer.

R. Ramanathan Chettiar, Esq.

B. D. V. Ramasawmy Naidu, Esq.

OFFICES OF THE BANKING DEPARTMENT	BRANCHES OF THE ISSUE DEPARTMENT
Bombay	Bombay
Calcutta	Calcutta
Delhi	Delhi
Madras	*Kanpur
London	Madras

* Also a Branch of the Banking Department.

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

For the year 1st *July* 1948 — *30th June* 1949.

In accordance with Section 53(2) of the Reserve Bank of India Act, 1934, the Central Board of Directors submits to the Central Government this Annual Report and the Accounts of the Bank for the fifteenth accounting period beginning on 1st July, 1948 and ending on 39th June, 1949.

ANNUAL ACCOUNTS

After payment of expenses of administration and provision for sundry liabilities and contingencies, the net profit amounts to	Rs.	9,05,69,731-4-3
A sum of	Rs.	10,00,000-0-0
has been utilised for payment to shareholders of a dividend at the rate of 4 per cent per annum in respect of the period 1st July to 31st December, 1948, under Section 3 (2) (*b*) of the Reserve Bank (Transfer to Public Ownership) Act, 1948 which came into effect on 1st January, 1949. After allowing for this amount, a surplus of	Rs.	8,95,69,731-4-3
is available for payment to the Central Government in accordance witb Section 47 of the Reserve Bank of India Act.		

The net profit is lower than in the previous year by Rs. 1.33 crores.

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 in Bombay on 9th August, 1948.

Bank's premises.

It was stated in the last year's Report that to meet the demand for extra space resulting from the expansion of the various departments of the Bank, the property known as " Amar Building " had been purahased at Bombay. As vacant possession of the entire building has not yet been obtained owing to legal difficulties, the Bank have under construction an additional storey on the roof of the building to meet urgent requirements. Arrangements are also nearing completion for the purchase of suitable sites for the erection of premises at Patna, where it has been decided to open a new office, at Delhi where a new building is to be constructed, and at Lucknow to which place it has been decided to move part of the Bank's Kanpur Office.

In furtherance of the policy to provide adequate housing accommodation for the staff, the Bank have purchased plots of land in Bombay at Lamington Road and Lady Hardinge Road, Matunga, where it is proposed to erect quarters for the clerical and subordinate staff, respectively. The Bank have also decided to join the Central Government's scheme of housing their employees at Delhi and to construct 440 residential quarters for the staff of the Bank. The Bank are also examining the possibilities of starting housing schemes at the other centres where their offices are situated.

Bank's Offices.

The branches at Karachi and Lahore, and the office at Dacca which was opened on 9th February, 1948, have been taken over by the State Bank of Pakistan with effect from 1st July, 1948. A new Sub-Office of the Bank has been opened at Gauhati under the Calcutta Issue Department.

Note Cancellation Sections were opened at Allahabad, Lucknow, Agra and Ludhiana up to 30th June, 1948 and at Meerut, Nagpur and Bangalore during the accounting year ended 39th June, 1949. Arrangements are also in hand for the opening of sections at Ahmedabad and Patna.

Nationalisation of the Reserve Bank.

In the last year's Report, mention was made of the announcement by the then Finance Minister on 4th February, 1948, in the Indian Union Parliament, of the Government's decision to nationalise the Reserve Bank as soon as possible after the termination of the Joint Monetary Arrangements between India and Pakistan. In pursuance of that decision and following the termination of these Monetary Arrangements on 30th June, 1948, the Reserve Bank (Transfer to Public Ownership) Bill was introduced in the Union Parliament on 9th August and passed on 3rd September, 1948.

Compensation to Shareholders.

According to the Act, on the basis of the formula contained in the 4th February, 1948 announcement, the value of the compensation payable to shareholders was fixed at Rs. 118-10 per share to be paid in the form of Government Promissory Notes bearing interest at 3 per cent and repayable at par on such date as may be fixed by the Government. This date has subsequently been fixed as 15th October, 1976, or, by three months' prior notice, an earlier date on or after 15th October, 1970. In cases where the amount of compensation was not an exact multiple of Rs. 100, the difference would be paid in cash. By a notification dated 19th October, 1948, the Government fixed the 1st of January 1949 as the date on which the shares of the Reserve Bank would be acquired by the Central Government. Gut of a total of 5 lakhs of shares (including 2,200 shares held by Government for disposal at par to Directors seeking to obtain the minimum share qualification), the total number tendered for payment of compensation up to 30th June, 1949, was 3,88,389, the total amount of compensation paid in the form of the 3 per cent First Development Loan, 1970-75 being Rs. 4,15,68,700 and in the form of cash Rs. 20,20,483-4-0.

Changes in the Bank's coneti-tution.

Under the Act, all the Directors of the Central Board including the Governor and the two Deputy Governors and all the members of the Local "Boards are appointed or nominated by the Central Government. With regard to management, the Central Government is empowered to give such directions to the Bank as it may, after consultation with the Governor, consider necessary in the public interest. Subject to any such directions, the general superintendence of the affairs and business of the Bank has been entrusted to the Central Board. Subject to such regulations as the Central Board may make, the Governor exercises all the powers vested in the Central Board.

Constitution of the Central Board.

The term of office of Sir Chintaman D. Deshmukh, C.I.E., Governor of the Bank, which was due to expire on 11th August, 1948, was first extended by-the Government up to 31st December. 1948. and subsequently by a further period of six months up to 30th June, 1949. Sir Chintaman relinquished his office at the close of business on 30th June, 1949, handing over charge to Sir Benegal Rama Rau, C.I.E. The Board would like to take this opportunity of expressing its appreciation of the very valuable services rendered by Sir Chintaman during his Governorship of the Bank. The term of office of the Deputy Governor, Mr. C. R. Trevor, C.I.E., was extended by the Central Government by one year from 16th August, 1948.

Under Section 8(1) (d) of the Reserve Bank of India Act, the Government of India nominated on 6th August, 1948, Mr. B. K. Nehru, M.B.E., I.C.S., to be a Director of the Reserve Bank of India *vice* Mr. V. Narahari Rao, C.S.I., C.I.E. Under the same provision, Mr. K. G. Ambegaokar, I.C.S., was nominated on 23rd October, 1948, vice Mr. B. K. Nehru.

With the coming into force on 1st January, 1949, of the Reserve Bank (Transfer to Public Ownership) Act, 1948, the existing Directors of the Central Board (except the Governor and the Deputy Governors) and members of the Local Boards vacated their offices with effect from that date. Under sub-section (1) of Section 8 of the Reserve Bank of India Act, the Government of India nominated on 16th January, 1949, Sir Purshotamdas Thakurdas, K.B.E., C.I.E., Mr. B. M. Birla, Sir Shri Ram and Mr. C. R. Srinivasan (in terms of clause (b) of the said sub-section) ; Sir Rustom P. Masani, Sir Manilal B. Nanavati, Mr. Dhirendra Nath Sen, Mr. Shrinivas, Dewan Bahadur C. S. Ratnasabapathi Mudaliar, C.B.E. and Mr. Ramrao Madhaorao Deshmukh (in terms of clause (c)) and Mr. K. G. Ambegaokar, I.C.S. (in terms of clause (d)), to be Directors of the Central Board of the Bank.

Sir Benegal Rama Rau, C.I.E., was nominated as a Director of the Central Board under Section 8(1) (d) of the Reserve Bank of India Act from 2nd May, 1949, to 30th June, 1949, vice Mr. K. G. Ambegaokar. The latter was renominated as a Director with effect from 1st July, 1949, when Sir Benegal Rama Rau assumed office as Governor.

Meetings of the Central Board and its Committee.

During the year under report, seven meetings of the Central Board were held. Of these, three were held in Bombay, two in New Delhi, one in Calcutta and one in Madras. The Committee of the Central Board met fifty times ; forty-two times in Bombay, four times in Calcutta, thrice in New Delhi and once in Madras.

Local Boards.

No Local Board election was held during the year. In view of the nationalisation of the Bank from 1st January, 1949, it was decided not to hold the election of members to the Northern (Delhi) Area Local Board due in December 1948.

As mentioned above, the members of the Local Boards, who were holding office prior to the nationalisation of the Bank, vacated their offices with effect from 1st January, 1949. In terms of Section 9(1) of the Reserve Bank of India Act, the Government of India appointed on 16th January, 1949, the following gentlemen to constitute the various Local Boards :

Western Area : Sir Purshotamdas Thakurdas, K.B.E., C.I.E., Mr. Kasturbhai Lalbhai, Prof. D. R. Gadgil, Mr. Ramdeo Podar and Mr. Vaman Pundalik Varde ;

Eastern Area : Mr. B. M. Birla, Rai Moongtulall Tapuriah Bahadur, Mr. Alec Leslie Cameron, Mr. Atul Krishna Ghose and Mr. Jiban Krishna Mitter ;

Northern Area : Sir Shri Ram, Mr. Satya Paul Virmani, Mr. Shambu Lal Puri, Rai Bahadur Sardar Basakha Singh and Mr. Sheikh Mohammed Bashir ; and

Southern Area : Mr. C. R. Srinivasan, Mr. S. B. P. Pattabhirama Rao, Rao Bahadur R. R. Iyer, Mr. R. Ramanathan Chettiar and Mr. B. D. V. Ramasawmy Naidu.

Mr. Kasturbhai Lalbhai, a member of the Western Area Local Board, resigned his office on 2nd April, 1949. Mr. Mathuradas Mangaldas Parekh has been nominated by the Central Board to fill the vacancy. Mr. Sheikh Mohammed Bashir, a member of the Northern Area Local Board, resigned his office on 9th April, 1949, and arrangements are being made to fill the vacancy.

Among the members of the Local Boards who held office prior to 1st January, 1949, Mr. W. Roberson Taylor, a nominated member of the Northern (Delhi) Area Local Board, resigned his membership on 25th August, 1948, for reasons of health. Khan Bahadur Habibur Rahman Chowdhury, a nominated member of the Eastern (Calcutta) Area Local Board, resigned his office on 29th September, 1948, as he was no longer qualified to be a shareholder, having become a resident of Pakistan. Neither of the vacancies was filled in view of the impending nationalisation of the Bank.

Termination of Joint Monetary Arrangements with Pakistan.

Following the establishment of the State Bank of Pakistan on 1st July, 1948, the joint monetary arrangements for India and Pakistan as provided in the Pakistan (Monetary System and Reserve Bank) Order 1947 (as amended in March 1948) were terminated, and the functions entrusted to the Reserve Bank of India in regard to the management of currency and credit in Pakistan were transferred to the State Bank of Pakistan. With effect from the same date, the Reserve Bank's Offices at Lahore, Karachi and Dacca were also taken over by the State Bank of Pakistan.

In the last year's Report, mention was made of the issue in Pakistan by the Reserve Bank of India of Bank notes inscribed with the words " Government of Pakistan " in English and Urdu from 1st April, 1948. The issues of these notes in Pakistan at the end of the quarter, April to June 1948, amounted to Rs. 51.57 crores and the outstanding liability in respect of them was taken over on its institution by the State Bank of Pakistan against allocation of equivalent assets from the Issue Department of the Reserve Bank of India. During the period April to June 1948, India notes of the value of Rs. 44.98 crores were withdrawn from circulation in Pakistan. India notes in circulation in Pakistan at the end of June 1948 continued to be legal tender in that

Dominion up to 39th September, 1948. These notes were being retired from circulation in Pakistan during the year under review in terms of Section 4(2) of Part IV of the Pakistan (Monetary System and Reserve Bank) Order 1947 (as amended), and the process of such retirement was to be completed by 39th June, 1949. India notes retired by the State Bank of Pakistan from time to time were delivered to the Reserve Bank of India in instalments against allocation of equivalent assets, the amount of such notes received from the State Bank of Pakistan and accounted for during the year under review aggregating Rs. 82.20 crores. The total amount of India notes withdrawn from circulation in Pakistan and accounted for during the period 1st April, 1948 to 39th June, 1949, thus amounted to Rs. 127.17 crores.

A portion of the assets of the Banking Department, worth nearly Rs. 101 crores, was also transferred in sterling on 1st July, 1948 to the State Bank of Pakistan against an equivalent amount of liabilities comprising the deposits of the Pakistan Central and Provincial Governments and of Scheduled Banks in Pakistan.

As regards India coins in circulation in Pakistan, the Government of Pakistan have announced their decision to demonetize pure nickel 'India' one rupee coin with effect from 1st October, 1949 end also to withdraw from circulation all 'India' nickel-brass two anna coins from 1st July, 1949.

India Notes and Coin.

During the year under review, a slight change was made in the paper used for Reserve Bank of India notes of the denomination of Rs. 100. The new paper contains a full-face portrait water-mark of Ring George VI in the blank water-mark panel, instead of the existing profile water-mark. These notes were first issued from the Bombay Office on 31st May, 1949. There was no other change made in respect of any denomination or pattern of notes. No changes were made in respect of size, design, metallic contents, etc., of coins.

Banking Legislation.

After the withdrawal from the Constituent Assembly of the Banking Companies Bill, 1946, on 30th January, 1948, a new Bill entitled "the Banking Companies Bill, 1948" was introduced on 22nd March, 1948. This Bill was referred to a Select Committee on 9th August, 1948, but in view of the pressure of other urgent business the consideration of the measure had to be postponed to the next session of the Assembly. However, it was felt desirable to bring into operation, with immediate effect, some of the essential provisions contained in the Bill. The Banking Companies (Control) Ordinance, 1948, was accordingly issued on 18th September. The Ordinance empowered the Reserve Bank to render assistance more freely to banks and at the same time vested in it greater powers of control than it had till then possessed. Thus, the Ordinance amended Seotion 18(3) of the Reserve Bank of India Act so as to enable the Bank to make loans and advances against suoh form of seourity as the Bank may coneider sufficient.* As regards the new powers which the Ordinance vested in the Reserve Bank, the most important was the authority to determine the lending policy to be followed by banking companies generally or by any banking company in particular and also to decide the purposes for which advances may be made, the margins to be maintained and the rates of interest to be charged. Other important provisions included (1) authority for the Bank to call for half-yearly returns showing classification of advances and investments, (2) prohibition of banks from making advances against the security of their own shares or from granting unsecured advances to any of their directors or to firms and private companies in which a director was interested, (3) the maintenance by banking companies, in the Provinces of India, at the end of each quarter, of assets of not less than 75 per cent of their demand and time liabilities therein, (4) the previous consent of the Reserve Bank of India for amalgamation and (6) the appointment of the Reserve Bank of India as Official Liquidator in certain circumstances.

The Banking Companies Bill, 1948, as amended by the Select Committee, was passed, by the Union Parliament on 17th February and came into force on 16th March, 1949. The Act repeals the Banking Companies (Inspection) Ordinance, 1946, Banking Companies (Restriction of Branches) Act, 1946, Banking Companies (Control) Ordinanoe, 1948, and Part XA of the Indian Companies Act, 1913. Besides incorporating the various interim measures of legislation together with amendments adopted from time to time since the first proposals for the regulation of banking were mooted by the Reserve Bank of India towards the close of 1939, the Act also embodies a number of other provisions, the more important of which are (1) the obligation on the part of all banks operating in India to take a licence from the Reserve Bank, (2) the obligation on the part of non-scheduled banks to maintain in cash the same percentage of their demand and time liabilities as is required to be maintained by the scheduled banks with the Reserve Bank, (3) the obligation on the part of the banking companies to maintain, two years after the commencement of the Act, 20 per cent of their demand and time liabilities in cash, gold or any unencumbered approved securities and (4) prohibition of interlocking directorates.

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* The Reserve Bank of India (Temporary Amendment) Ordinance of 29th September, 1947, referred to in the last Report, had made this amendment, but that Ordinance lapsed on 29th March, 1948.

Department of Banking Operations.

The Department of Banking Operations continued to deal with problems relating to scheduled and non-scheduled banks and to keep a close watch over their affairs. The administration of the Banking Companies Act, 1949, has now become an important function of this Department and steps are being taken to enlarge its staff in order to ensure the efficient performance of the various statutory duties imposed on the Bank, particularly the examination of applications for licensing, the scrutiny of the various returns prescribed under the Act, bank inspections, etc. In addition, the Department continued to examine applications from banking companies for issue of capital forwarded by the Government of India for the Reserve Bank's opinion and to tender advice on banking and financial matters to banks and Governments.

Under a notification dated 16th March, 1949 (No. F.4 (46)-F.1/49), issued under Section 53 of the Banking Companies Act, 1949, the Central Government have, on the recommendation of the Reserve Bank, exempted for a period of six months all banking companies from the provisions of Sections 10(1) (c) (i) and (ii) and 16 of the Act which debar a banking company (1) from being managed by a person who is a director of any other company, not being a subsidiary company of the banking company, or who is engaged in any other business or vocation and (2) from having as a director any person who is a director of any other banking company. Twelve banking companies which are members of the Displaced Banks' Association have in addition been exempted during this period from the provisions of Section 10(1) (b) (i) in so far as these prohibit the employment of a person who is or at any time has been adjudicated insolvent, or has suspended payment or has compounded with his creditors and also from the provisions of Section 25 which require a banking company to keep at the close of the last working day of every quarter assets in the Provinces? of India equal to at least 75 per cent of its demand and time liabilities therein.

The rules and forms under the Act were published in the *Gazette* of India *(Extraordinary)* dated 26th March, 1949.

Inspection.

Sixteen banks were inspected during the year under review. Eight were inspected under the Banking Companies (Inspection) Ordinance, 1946, five under the Banking Companies (Control) Ordinance, 1948, in connection with their applications for schemes of arrangement, two for the purposes of section 42(6) of the Reserve Bank of India Aot, 1934, and one at the instance of a State Government. Reports on 12 banks, including those on 6 banks inspected during

† Include acceding States to which the Act extends.

the previous year, were forwarded to Government during the year.

At the request of the Finance Secretary, Saurashtra Government, an Officer of this Department was deputed (on 17-6-1948) to examine the position of State and State-controlled banks in Kathiawar for the purpose of ascertaining the form in which these banks should continue to function in the new set-up of the Government of Saurashtra. The inspection was completed during the year and the report together with recommendations was forwarded to the Saurashtra Government for necessary action.

Branch Licensing.

The Reserve Bank of India continued to receive applications for the opening of new branches and for changing the location of existing ones in terms of the Banking Companies (Restriction of Branches) Act, 1946 which, as stated above, was repealed by the Banking Companies Act which came into force on 16th March, 1949. Control over branch banking was thereafter exercised under Section 23 of the Banking Companies Act, 1949. One hundred and eighty applications were disposed of during the year of which 99 were for opening 158 new branches and 81 for changing the location of 82 existing branches. Licences were granted for opening 95 out of the 158 offices and for changing the location of all the 82 offices for which permission was sought. Among the licences granted for opening new branches, 7 were for opening temporary branches. The total number of applications disposed of by the Reserve Bank under the Banking Companies (Restriction of Branches) Act, 1946 and the Banking Companies Act, 1949, up to 30th June, 1949 was 596, of which 301 were applications for opening 629 branches and 295 for changing the location of 325 existing branches.

Capital Issues by Banks.

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 1,147 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 1,147 applications, 457 were recommended for acceptance and 679 for rejection ; 11 were returned to Government without comments. The number of applications received during the year under review was 64 of which 20 were recommended for acceptance and 42 for rejection ; 2 were returned to Government without comments.

The Government of India permitted the issue of capital by banks to the extent of Rs. 85.57 lakhs from 1st July, 1948 to 39th June, 1949.

Agricultural Credit Department.

The Agricultural Credit Department continued to devote its attention to the study of the problems connected with the Co-operative movement, land mortgage banks, debt legislation, regulation of moneylending, warehousing legislation, marketing and other allied subjects. The services of the Department were utilised more extensively than in the last year by co-operative banks, Registrars of Co-operative Societies, and Governments, as can be seen from the greater number of references received.

Mention was made in the last Report regarding the deliberations of the Co-operative Sub-Committee appointed by the Government of India, of which the Chief Officer was a member; the deliberations concluded during the year and the Chief Officer of the Department signed the Report subject to a qualifying note.

Pursuant to the Bank's policy of maintaining a close contact with the practical working of the movement in the various Provinces and States, the Chief Officer of the Department visited two Provinces, viz., Assam and Central Provinces and Berar during the year to gain a first-hand knowledge of the movement in these areas.

There was a persistent demand from co-operators, official as well as non-official, that the period of nine months for which finance is available under Section 17(2) (*b*) of the Reserve Bank of India Act was too short to enable the provincial co-operative banks to derive full benefit of the facilities offered to them and that it should be extended to twelve months. Being in agreement with this view, the Department has suggested to the Central Government, with the approval of the Central Board, an amendment to Section 17(2) (*b*) extending the period from nine months to twelve months. The Government of India are to consider the matter as early as possible.

The Department has, during this year, published more books and pamphlets than before on matters pertaining to the Co-operative movement in general and agricultural credit in particular. These publications have met with a favoureble reception in India and also abroad Among the publications may be mentioned the brochure on the Co-operative movement in Ceylon, which country was visited by the Chief Officer, as stated in the last year's Report. The idea behind the publication was to bring home to co-operators in India whatever good features were found worthy of being copied from that island.

The Department has also issued circulars on important questions to Registrars of Co-operative Societies and Provincial Governments mainly with a view to bringing about co-ordination in matters of policy. The more important of these circulars relate to (i) Rules under the Warehouse Act, (ii) Co-operative Movement and Rural Savings, (iii) Audit classification of Co-operative Societies, (iv) Periodical Enquiry into the Economic Conditions of the Members of a Rural Co-operative Society as a test of the success of the Rural Credit Movement and (v) Maintenance of Fluid Resources by Co-operative Banks.

The Department is engaged in collecting data for the Statistical Statements relating to the Co-operative Movement in India for the year 194647 and the Review of the Co-operative Movement in India for 1946-48.

Mention was made in the last Report of the steps taken by the Department to dispel the feeling, among co-operators, that the Reserve Bank's attitude in the matter of accommodation to co-operative banks was not very favourable. The effect of these efforts was a more frequent approach to the Reserve Bank for accommodation from provincial co-operative banks. As against applications for accommodation to the extent of Rs. 141.86 lakhs last year, applications were received for Rs. 366.10 lakhs during the year under report. The amount sanctioned for 1948-49 was Rs. 180.26 lakhs as against Rs. 67.70 lakhs sanctioned for 1947-48.

Department of Research and Statistics.

The Department of Research and Statistics continued to issue the Reserve Bank of India *Bulletin* (monthly) which completed its second year of publication in December 1948. The annual Report on Currency and Finance for 1948-49 containing, as usual, a comprehensive survey of monetary and financial developments during the year, was published early in August 1949.

The Division of Monetary Research continued to study the problems of monetary policy, prices, capital markets and public finance, besides preparing various periodical reports for the use of the Bank. It issued in March 1949, the Statistical Tables relating to Banks in India and Pakistan for the year 1947. A sample survey of the advances of scheduled banks as on 30th June, 1948 was completed and a note embodying the results was published in the April 1949 issue of the Bank's *Bulletin.* The Survey of ownership of demand deposits of scheduled banks and of their investments in Government securities as on 31st December, 1947—the third in the series undertaken by the Bank since 1945—was also completed. As from the next accounting year, the Division is to undertake half-yearly surveys of ownership of bank deposits and investments of banks and quarterly surveys of advances of banks. The results of those surveys will be published in the Reserve Bank of India *Bulletin* from time to time. The Division has taken in hand the work of revising the pamphlet on the Functions and Working of the Reserve Bank of India, first issued in 1941.

A separate Balance of Payments Division was organised towards the middle of December, 1948 to compile and organise the statistics and study the problems relating to India's balance of payments, along the lines adopted in advanced countries such as the U.S.A., Canada and the U.K. The Division compiled, during the year under review, estimates of the balance of payments of the country for the years 1946 to 1948, which have been published in the Bank's *Bulletin* for July 1949. Studies were undertaken in regard to the adaptation and the processing of trade statistics compiled by the Customs and the information available with the Exchange Control Department for the construction of the balance of payments. Preparatory work was also completed in respect of a survey for the collection of data on the country's foreign exchange receipts and expenditure on the transportation account.

Pursuant to the powers conferred in October 1947, by the Government of India on the Reserve Bank to call for such information as the International Monetary Fund may require from member countries (referred to in the last Annual Report), the Division has undertaken, on behalf of the Government of India, a Census of India's Foreign Liabilities and Assets in order to collect information as of 30th June, 1948 on India's international investment position. About 50,000 blank sohedule forms were distributed to the public to enable them to file the necessary returns ; of these about 30,000 completed forms have been filed with the Bank by individuals and institutions. The work of sorutinising and analysing the returns will be completed shortly. Besides enabling the Bank to furnish to the International Monetary Fund information in regard to the country's international investment position, the Census will facilitate an estimate of the amount of interest received and paid by the country on its international assets and liabilities.

During the year under review the Division of Statistics completed the work regarding Sensitive Index Numbers of Security Prices and Index Numbers of yield on Government of India Securities. Quantum and Price Index Numbers of imports and exports were constructed on an annual basis for the periods 1945-49 and 1937-39. Some of the important studies completed in the Division during the year are (1) Changes in the market value of Industrial Shares during August 1939 to August 1946 and August 1946 to Ootober 1948, (2) Mechanics of Statistical Organisation with reference to U.S.A., (3) Some aspects of Production and Supplies of Principal Commodities in India during 1945-47, and (4) A Statistical Study of Bullion Prices since 1923. The analysis of balance sheets of Joint Stock Companies for the years 1946 and 1947 (on a sample basis) to estimate the capital formation and study the cost-structure and other important aspects is in progress. The following sampling studies were also undertaken during the year : (i) Selection of G. R. forms for detection of undervalued invoices ; (ii) Statistical analysis of the Sample survey of advances in India of scheduled banks ; (iii) Sampling G. R. forms for finding the relation between E.C.D. and Customs valuation of exports.

The Division of Rural Economics carried out during the year a survey of agricultural indebtedness in the Murbad taluka of the Thana District. For this purpose the information contained in the applioations for adjustment of debts submitted to the Civil Court at Murbad under the Bombay Agricultural Debtors Relief Act, was utilised. In addition, a field investigation of the repayments effected of the scaled-down debts in a few seleoted villages was also carried out. A draft report analysing the data collected has been prepared and is being finalised. The Report of the Survey of Agricultural Indebtedness in Pandharpur and Sangola talukas was published in two parts in the January and February 1949 issues of the Reserve Bank of India *Bulletin*. The Division has just completed an inquiry relating to food production in the Bombay Province during the last few years. The survey has been planned in collaboration with the Agricultural Economics Section of the School of Economics and Sociology, the University of Bombay and relates to five talukas of the Province, viz., Bardoli, Dhulia, Dharwar, Murbad and Shevgaon. The work of tabulating the data and the consolidation of the information collected is in hand.

General Economic Conditions.

The problem arising from a deterioration in the general economic situation in the country noticed during the latter half of the accounting year 1947-48 became the major pre-occupation of the authorities, as the year under review opened. Shortages of raw materials, difficulties of replacement of worn-out plant and machinery and the transport bottleneck continued to be the chief obstacles to a rapid return to normalcy while there was also a general lack of incentive as reflected in the continued stagnant conditions in the investment market.

The situation called for a review of policies both in the monetary and the non-monetary spheres. The action taken by the Government to combat the economic malaise included, a mitigation of import restrictions, a partial reversal of the policy of decontrol and the initiation of a comprehensive anti-inflation programme. Early in July 1948, steps were taken to liberalise the import policy with a view to easing the supply position. This was followed by the Government's decision for a gradual reimposition of physical controls, first in the case of cloth (30th July), then in the case of cotton (21st August) and finally in the case of food. The revised food policy as announced on 24th September envisaged gradual reimposition of controls over prices, procurement and distribution of the more important foodgrains. To tackle the basic problem presented by the growing gap between the country's total requirements of foodgrains and internal supplies, the Government enunciated on 19th March, 1949 a new food policy, which has as its main objective the attainment of self-sufficiency by the end of 1951. In pursuance of this plan, Provincial and State Governments are to initiate measures to step up production through a vigorous campaign for intensive cultivation, land reclamation, construction of tube wells, imports of special fertilisers and the development and use of high-yielding non-cereal crops.

While physical controls were intended to curb open price inflation, the anti-inflation programme as announced on 4th October was designed to counteract the inflationary pressures which were at the back of these price increases. The measures adopted by the Government fall into two categories, namely, (i) those intended to keep down governmental expenditure as well as to reduce excess purchasing power in the hands of the community, and (ii) those intended to increase the volume of essential goods and services. The more important measures in the first category included : (1) the balancing of budgets, Central as well as Provincial, (2) a trimming of capital expenditure by Governments, (3) postponement, with effect from 9th October, of repayments of E.P.T. and other deposits, (4) revival on 18th October of the 1943 scheme of interest-bearing deposits, (5) the issue from 15th October of a new form of short-term obligation, namely, the Treasury Deposit Receipts with maturities of 6 months, 9 months and 12 months bearing interest at 1 per cent, 1¼ per cent and 1½ per cent respectively, (6) the raising of the maximum permissible limit for investments in Post Office Savings Rank Deposits and in National Savings Certificates, with effect from 23rd October and (7) the limitation of dividends payable by public limited companies under an ordinance dated 29th October, according to which the amount to be distributed as dividend was limited to the average amount distributed in cash during the two years ended March 1948 or 6 per cent of the paid-up capital, whichever was higher. The second category of measures was designed partly to stimulate production and partly to augment supplies by allowing a larger flow of imports. The concessions to industry inoluded liberalisation of depreciation allowances, exemption from taxation of new industrial undertakings subject to certain conditions, abolition of the capital gains tax, reduction of super tax, reduction in import duties on plant end machinery as well as on essential industrial raw materials, reduction or abolition of duties on certain exports and top priority of transport facilities for essential key industries like cement, steel and textiles. Apart from these, direct assistance was also provided to industries through the Industrial Finance Corporation which commenced operations from 1st July, 1948.

Overall industrial production in 1948 showed a perceptible improvement over 1947 and, on the basis of available reports from some of the major industries, is expected to show a further increase in 1949. There were fewer strikes during the year, and the total number of man-days lost during tbe first four months of 1949 at 22 lakhs was only a half of the figure for the corresponding period of the preceding year.

Prices.

The sharp upward movement in the general price level during the latter half of the last accounting year, which coincided with the Government's policy of decontrol, reached a peak during the first month of the year under review. The Economic Adviser's General Index touched 390 in July 1948, registering an increase of 29 per cent over the pre-decontrol level in November 1947. The rise was most marked in the decontrolled sector, especially in essential consumer goods including rice and wheat, cotton yarn and textiles and oilseeds. With a view to checking a further deterioration in the situation and pending the initiation of a full-fledged anti-inflation programme, the measures taken early in July to liberalise imports were followed on 30th July by the reimposition of controls over cloth, the new controls including measures for the fixation of fair ex-mill prices for both cloth and yarn,. the stamping of such prices on all stocks including existing stocks with the mills which were frozen, the allocation of cloth on a quota basis to Provinces and States, and the fixing of a ceiling on the margin to be charged by retailers. This was followed by an announcement on 21st August of Government's decision to reimpose control over cotton prices for the 1948-49 season, the floor and ceiling prices thus fixed for Jarilla 25/32" being Rs. 495 and Rs. 620 respectively. Under the revised food policy as announced on 24th September, Provincial and State Governments took action, in varying degrees, to reimpose controls over prices, procurement and distribution in respect ofrioe, wheat, jowar, bajra, maize, barley, ragi and gram. Details of the measures taken under the anti-inflation programme of 4th October have already been noticed earlier. Other steps which had a direct influence on the price level included the fixation of sugar prices from 2nd December at Rs. 28-8 per maund ex-factory as against Rs. 35-7 a year before, and a downward revision with effect from 1st January, 1949, of cloth prices by about 1 per cent in the case of coarser varieties and up to about 10 per cent in the case of finer types, although, later, from 1st April, increases ranging from 2 to 2½ per cent in the case of coarser varieties to 6 per cent in the case of superfine varieties were allowed on the recommendations of the Tariff Board. Government's decision on 18th May not to allow any increase in the basic price of cotton for the 1949-50 season was also in line with the anti-inflation policy. In the case of steel, however, an increase of Rs. 60 per ton, with effect from 1st June, was allowed in order to equalise the price of indigenous steel with that of imported steel. The Economic Adviser's General Index eased from the peak level of 390 in July to 383 in August and continued steady at around that level up to December. It declined in the succeeding three months, namely, January to March 1949, touching 370 in March. During the closing quarter of the year, however, there appeared to be signs of a gradual reversal of the downtrend, the Index moving up to 378 by June, an increase of 2.2 per cent over the level of 370 in March. The chief sub-groups contributing to this rise were metal products (8.8 per cent), textiles (7.7 per cent), pulses (4.2 per cent), oilseeds (6.4 per cent), minerals (3.3 per cent) and cotton yarn (2.9 per cent). Despite this rise, the General Index for June represented a reduction of about 3 per cent from the peak level of July 1948 and of about 1 per 'cent from the corresponding level in June 1948,

Developments in Trade Policy

Developments in trade policy during the year were governed mainly by the availability of sterling from the accumulated balances and by the need for achieving a closer balance in the trade with hard currency countries.

During the first half of the year, a large measure of liberalisation in respect of imports from soft currency countries was made possible by the relatively easy soft currency position resulting from the operation of stringent import controls in the previous year and sterling releases secured under the Indo-U.K. Financial Agreement of July 1948. Soon after their announcement early in July 1948 of Open General Licence No. XI permitting imports of about 200 items from soft currency countries, the Government decided to liberalise imports from the medium currency countries (viz., Sweden and Switzerland) and issued Open General Licence No. XII for a limited period upto 31st January, 1949. It was also found feasible to relax restrictions on imports from Japan.

Following a review of import policy in the light of inflationary conditions in the oountry, a number of luxury items was included in Open General Licence No. XI in November 1948, the import duties in respect of these items being raised at the same time. During the second half of the year, the deterioration in the country's payments position with respect to all the currency areas called for a gradual reversal of the policy initiated earlier. In respect of imports from medium currency countries and Japan the respective Open General Licences were cancelled with effect from 1st February, 1949 and 1st April, 1949 and Open General Licence No. XI applicable to soft currency countries was replaced in. May 1949 by Open General Licence No. XV covering a restricted list of goods ; the latter step was necessitated by a sharp decline in sterling reserves as a result of growing deficits in the trade with sterling and other soft currency countries.

Restrictions on imports from hard currency countries, which since the commencement of the year were subject to strict licensing, were further tightened in February 1949 as a precaution against a possible increase in deficits arising from the higher levels of food and other imports planned during 1949. Simultaneously with a policy of curtailing imports from hard currency countries the Government concluded several trade and barter agreements (with Bizonia, Japan, Yugoslavia, Czechoslovakia, Switzerland, Poland, Hungary, Egypt, Finland, the U.S.S.R., Argentina and Pakistan) with a view to augmenting the purchases of capital goods, foodgrains and essential raw materials like jute and cotton and facilitating a diversion of imports from hard to soft currency sources.

A major consideration affecting export policy during the year was the need for maximising exports to hard currency countries. Measures taken by the Government for expanding exports to hard currency countries included chiefly: (a) the arrangement made from July 1948 to license export of jute goods to the full extent of quantities applied for, (*b*) the introduction of Open General Licence No. 3 in November 1948 covering export of pepper, nigerseed and sandalwood oil and the issue of Open General Lioence No. 6 in May 1949 covering samples of cotton, silk, artificial silk and mixed piece-goods valued at less than Rs. 50 to hard currency countries, (c) the grant of exemption from the ban on exports of raw cotton and certain varieties of raw hides and skins in favour of hard currency countries, and (d) the provision of special incentive to exporters of cotton piece-goods to hard currency countries by offer of additional quotas for soft currency countries.

Concurrently with the special measures adopted for promoting exports to hard currency countries, the objective of policy was to stimulate exports to other destinations as well. The control on exports of cotton piece-goods was relaxed in March 1949 so as to admit a large number of newcomera as exporters. Trade with Pakistan also benefited from a new policy which reduced some of the formalities associated with export control ; control was lifted in respect of a fairly large number of items including mustard oil, salt, soap, matches, silk and woollen goods to facilitate free export of these articles to Pakistan. In April 1949, two Open General Licences Nos. 4 and 5 were issued, the former covering export to all destinations of a few items of hardware, electric fans and tea chests and the latter for a period of one month to facilitate export of iron ore to Japan. Other measures taken by the Government in the interest of export trade promotion during the year were the strengthening of commercial intelligence services abroad, participation in various international fairs and exhibitions and despatch of trade delegations to various countries.

India's trade relations with Pakistan during the year were governed mainly by the agreement for the exchange of essential commodities concluded in the previous year. In May 1949, the Governments of the two Dominions reaohed an agreement granting mutual rebate of excise duties on each other's exports. Towards the close of the accounting year, on 24th June, 1949, a fresh agreement for the exchange of essential commodities was signed in Karachi by the representatives of the two Dominions. The agreement provided for the export of steel, coal, cotton textiles, jute manufactures, mustard oil, groundnut oil and vanaspati from India to Pakistan. In return, Pakistan has agreed to supply raw cotton, raw jute, hides and skins.

Recent trade statistics of India are subject to certain important limitations in respect of coverage. The partition of the country and the declaration of Pakistan as a foreign territory from March 1948 have introduced changes in regard to their spope. While the statistics exclude the trade of Pakistan ports from August 1947* they include the trade with Pakistan only from 1st March, 1948. They also give only a partial picture of the external trade of the country as they do not cover the trade with Pakistan across the land frontiers. On the basis of published statistics, the total value of India's foreign sea-borne trade (private and Government) during the eleven months ended May 1949 amounted to Rs. 902.48 crores as compared to Rs. 783.20 crores during the corresponding period ended May 1948 registering a rise of about 15 per cent. As a result mainly of the country's increased dependence on foreign food and raw cotton and partly of the liberal import policy in operation during the period under review, imports increased to Rs. 522.56 crores

* Karachi from 1st August, 1947 and Chittagong from 15th August, 1947.

during the eleven months ended May 1949 from Rs. 402.39 crores during the corresponding period ended May 1948. Total exports, however, showed a slight fall from Rs. 380.81 crores to Rs. 379.92 crores. As a result there emerged a large import surplus of Rs. 142.63 crores during the period under review as compared with Rs. 21.68 crores during the eleven months ended May 1948.

Balance of Payments.

The estimates of India's balance of payments (recently published) for the years 1946 to 1948 throw fresh light on the development in the country's international accounts, although it must be noted that these estimates are subject to several limitations.

The country's deficit on current account rose substantially between 1946 and 1947 mainly as the result of a spurt in imports (only partly offset by the expansion in the value of exports) and of a fall in invisible receipts on Government account due to the larger reduction in the defence expenditure of the United Kingdom in India. The strengthening of import controls which occurred in the latter half of 1947 helped to produce an overall favourable balance in the first half of 1948 : but the relaxation of these controls in respect of soft currency imports (which followed in the wake of the extension in July 1948 of the Financial Agreement between India and the United Kingdom) and the payment to the Government of the United Kingdom for stores and installations purchased by the Government of India together contributed to turn the balance for the whole year into a deficit of Rs. 123 crores. In each of these three years, exports* stood in exoess of imports* on private account, though in varying degree. It would appear that the expansion in export values during this period was more the result of increases in price than in quantity. Another feature is the fact that imports on Government account (primarily of food) figure prominently in the country's external transactions, at Rs. 108, Rs. 107 and Rs. 124 crores in 1946, 1947 and 1948 respectively. (The figures for 1948 exclude the abovementioned special payment- in respect of stores.) If both private and Government transactions were taken into account, the trade deficit of the country during the three years appears to have stood at Rs. 51, Rs. 81 and Rs. 43 crores respectively.

The capital account in the country's balance of payments shows that the deficits on current account were principally financed by the reduction of the foreign assets of the banking system (including the sterling assets of the Reserve Bank of India). The fall in these assets was Rs. 327 crores in 1948 as against Rs. 57 crores and Rs. 108 crores in 1946 and 1947 respectively : this is explained in part, however, by the payment of Rs. 224

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* As adjusted for balance of payments purposes.

crores to the Government of the United Kingdom for the purchase of annuities in respect of pensions payable in sterling by the Government of India and the Provincial Governments. The capital account also disoloses a net outflow of private capital estimated at Rs. 16 crores in 1948 as against Rs. 64 crores in 1947, for which year, however, no data were available for this item on the side of receipts.

The adverse balance in regard to transactions with hard currency countries continued to be the major problem in the country's international accounts. Though the operation of strict import controls helped to bring down the size of the deficit to 58 per cent of that of the previous year, the adverse balance of payments continued to be substantial at a level of Rs. 50 crores, owing to the maintenance of a high expenditure in these currencies on Government account. The deficit was financed upto the value of Rs. 23 crores by the purchase of U.S. dollars from the International Monetary Fund and the balance was met by the utilisation of the convertibility facilities agreed upon between India and the United Kingdom. By the end of March 1949, India had purchased dollars to the value of Rs. 33 crores (including the Rs. 23 crores in 1948), which is the total amount India is entitled to buy in any twelve-month period. A mission from the International Monetary Fund visited the country in April 1949 to study the general economic conditions in India and to hold consultations with the Government and the monetary authorities on the several aspects of the country's balance of payments problem. While aid was sought from the International Monetary Fund for meeting temporary deficits in India's hard currency accounts, efforts were also made for obtaining the finance needed for the essential import requirements of some of the long-term development plans from the International Bank for Reconstruction and Development. A mission headed by the Assistant Loan Director of the Bank visited India in January 1949 to make an appraisal of the economic and financial situation in the country and to study the country's development programmes with special reference to the railway and agricultural projects which had been suggested by the Government of India for the Bank's consideration as the basis for a possible loan from the Bank.

For the first six months of 1949, there appears to have been a deterioration in the country's external payments position. The foreign assets of the Reserve Bank stood at Rs. 821 crores at the end of June 1949: this represents a decline of Rs. 264 crores during the first six months of 1949, as against Rs. 486 crores in 1948, Rs. 113 crores in 1947 and Rs. 49 crores in 1946. The figures for 1948 and 1949, however, include two items of capital expenditure, viz., the payment to the United Kingdom for the purchase of pensions annuities and transfers to the State Bank of Pakistan, This decline which appears to have resulted from the relatively large flow of imports from soft currency countries as a result of the measures taken in the previous year has depleted these assets at a rate which is in excess of the rate of releases agreed upon in the Finanoial Agreement between India and the United Kingdom of July 1948,

The International Monetary Fund and the International Bank for Reaonetruction end Development.

The International Monetarv Fund sold exchange worth $100 million (in&ding a sale of U.S. dollars against gold) during the ten months ended April 1949 as against $569 million during the year ended June 1948. This contraction in the volume of the Fund's transactions is partly attributable to its virtual withdrawal from the European field owing to the assistance provided to these countries under the European Recovery Programme.

Few members approached the Fund for a change in the par values of their currencies as a means of meeting a fundamental disequilibrium in their balance of payments. Notable, however, was Mexico which allowed the peso to fluctuate in a free market from July 1948 so that it might find its natural level. The free market continued to exist till June 1949 when the par value of the peso was fixed at 8.65 pesos as compared to 4.85 pesos per U.S. dollar prior to the change in valuation. The depreciation which was necessary to stimulate exports and to check imports was, in the case of some currencies, achieved on a partial and selective basis through the continuation, modification and extension in thecountries concerned of multiple currency practices. Though the Fund's declared aim is to establish unified exchange rate structures, it accepted these practices for the time being in view of the extraordinary post-war economic conditions. A few members of the Fund, however, undertook to simplify or modify their practices so as to facilitate the establishment at a later date of unitary rates of exchange.

Towards the end of 1948 South Africa placed before the Fund a proposal to export a small quantity of semi-processed gold against payment in dollars at a price of $38.20 per fine ounce, i.e., at a premium of nearly 10 per cent over the official price of $35 per fine ounce. The Union explained that the gold was meant to be disposed of for specific and customary industrial, professional or artistic purposes to which the Fund's policy statement of June 1947, deprecating international gold transactions at premium prices, did not apply. However, the Fund felt that the existence of sources, which were prepared to satisfy all genuine international demands for gold for industrial, professional or artistic purposes, at approximately $35 per fine ounce, was strong evidence to suggest that the gold sold at a premium of $3.20 per fine ounce would not be disposed of for strictly bona *fide* and customary purposes. Notwithstanding the Fund's views, the Union initiated early in February 1949 a sale of 100,000 ounces of semi-processed gold alloyed to 22 carats at $38.20 per fine ounce. The Union's Finance Minister also criticised the Fund's policy regarding gold sales. Further negotiations between the Fund and the Union Government culminated in May 1949 in South Africa's agreeing to enforce more rigorous safeguards against exports of semi-processed gold getting into undesirable channels.

The availability of dollar assistance from the United States to the European countries under the ERP enabled the International Bank for Reconstruction and Development to turn its attention from the reconstruction needs of war-torn countries to the development needs of its under-developed members. The policy of the Bank in regard to the ERP countries was to supplement the ECA aid primarily by financing projects which involved permanent additions to productive capacity. Accordingly, the Bank granted to four Dutch shipping companies a loan of $12 million against 2½ per cent mortgage notes maturing in one to ten years for financing the purchase of six merchant vessels. Again, in February 1949 Belgium was granted a loan of $16 million for financing imports of equipment for the construction of two steel mills and a power plant, the loan being for a term of 20 years and carrying interest at 3) per cent. In the development field, the Bank granted two loans to Mexico in January 1949 and one to Brazil in February 1949. The Mexican loans, of $24.1 million and $10 million, are for meeting the foreign exchange costs of electric power development projects. The loan of $10 million is repayable within one year and bears an interest rate of 3½ per cent. The other Mexican loan as well as the Brazilian loan of $75 million (intended to assist in financing the expansion of hydro-electric power facilities and telephone installations) is for a period of 25 years bearing interest at 3½ per cent. As usual, in addition to. the interest, all the loans are charged a commission of one per cent to be allocated to the Bank's Special Reserve. The Bank sold, under its guarantee as to principal and interest, notes worth $26.3 million which it had received against the loans to the Dutch shipping companies and Belgium.

A mission, led by the Assistant Loan Director of the Bank, visited India early in 1949 to study, *inter alia*, the development programmes, particularly in regard to railways and agriculture, which had been put forward by the Government of India for the Bank's consideration as the basis for a loan. Following this, negotiations between India and the Bank for a dollar loan to finance certain projects reached an advanced stage at the end of June 1949.

Exchange.

In the rupee-sterling exchange market, banks' quotations to the public for ready T.T. remained unchanged throughout the year at **1*s*. 5-31/32*d*.** selling and **1*s*. 6-1/32*d*.** buying. Banks continued to quote forward buying rates for delivery upto one year, the T.T. buying rate for the last three months being quoted at **1*s*. 6-1/16*d*.** as against the rate of **1*s*. 6-1/32*d*.** for the first nine months. The forward selling rate for sterling T.T. for delivery up to six months remained unchanged at le. **5-15/16*d*.** The Reserve Bank continued to buy sterling T.T. from banks for delivery within six months at **1*s*. 6*d*.** and to sell for ready delivery at **1*s*. 5-63/64*d*.** The Bank also sold sterling for delivery up to six months forward at **1*s*. 5-31/32*d*.** but the demand for forward sterling from banks was negligible. With the establishment of the State Bank of Pakistan, the Bank discontinued its transactions in sterling on Pakistan account from 1st July, 1948. The net sales of sterling by the Bank during the year amounted to **£91,377,000** on Indian Union account as against total net purchases of **£108,944,000** on Indian and Pakistan accounts during the preceding year.

Exchange Control.

There were no changes during the year under review in the principles on which the exchange control system was operated, although there were certain modifications in the regulations governing travel abroad and transactions with certain countries.

The scales of allowances for personal travel abroad were revised in November 1948, when the distinction till then drawn between Indian and foreign nationals was abolished and uniform scales based on residence and not on nationality were adopted for all those resident in India other than those on temporary visits. In April 1949, it was decided to permit travel to all the zones of Germany, with the prior approval of the Government of India, for official, business, health or other approved purposes.

The regulations governing the transfer of assets by retiring foreign nationals, which had been relaxed in respect of foreigners other than nationals of hard currency countries in June, 1948 and those governing transfers of lump sums to any country by Stateless refugees were tightened in November 1948. At the request of the Government of the United Kingdom, the Government of India also consented to refer to the Bank of England all applications for capital transfers to Egypt.

India and Pakistan signed on 30th June, 1948 a Payments Agreement which precluded exchange control as between the two Dominions and any restrictions on the transfer of funds, on current or capital account, or of securities (particularly evacuee funds in private hands) from one Dominion to the other. Provision w&s, however, made for consultation between the Reserve Bank of India and the State Bank of Pakistan in respect of the transfer of evacuee funds in the hands of the Custodians of Evacuee Property. The agreement provided for the official rate of exchange between the India rupee and the Pakistan rupee to be at par and for due notice and mutual consultation before any alteration in the rate by the Government of either country. Following this the Reserve Bank of India fixed a ready buying rate of Rs. 99-31/32 and a selling rate of Rs. 100-1/32 for Pakistan Rs. 100 for purchase from and sales to scheduled banks, the buying and selling rates of scheduled banks to the public being Rs. 99-15/16 and Rs. 100-1/16. For the settlement of payments between the two Dominions each central bank agreed to sell to the other its own currency to the extent of Rs. 15 crores against the currency of the other ; and, beyond this limit, sales could be made against sterling from the No. I Account of the bank concerned with the Bank of England upto a maximum of £7.5 million, while balances still remaining were to be settled by transfers from the No. II Account. Each bank had the right to purchase from the other at any time all or part of its own currency held by that bank by tendering either the currency of that bank or sterling from its No. I Account. The agreement further provided that, in the event of either Government depreciating its currency in terms of the currency of the other Dominion, the holdings of the former's currency by the latter's central bank should be revalued on the basis of the new rate and the account of whichever central bank incurred a loss as a result of the revaluation should be written up by the credit of additional amounts of the other's currency.

The Government of India decided in March 1949 to prohibit the bringing or sending into the Provinces of India any Government of India one-rupee notes from any place in Pakistan except with the general or special permission of the Reserve Bank of India. The Bank also cancelled its general permission for the taking or sending out of Indian currency notes to Pakistan except by *bona fide* travellers who were allowed to carry with them currency notes of the Government of India or notes of the Reserve Bank of India not exceeding Rs. 50 in all.

Exchange control in Pakistan and in the Persian Gulf area, which was being administered by the Reserve Bank of India, was taken over by the State Bank of Pakistan and the Political Resident, Bahrein, respectively as from 1st July, 1948.

The import of gold and silver from places outside the sub-continent of India and from places in the French and Portuguese territories in India continued to be prohibited. In August 1948, however, the Bank gave general permission to the bringing or sending of gold or silver by sea or air into any port in the Provinces of India, provided the gold or silver was on through transit to a place outside India and was not removed from the carrying ship or aircraft, except for purposes of transhipment. With a view to reducing further the scope for smuggling of gold or silver into India from the French and Portuguese territories in India, the Bank excluded from this general permission gold or silver destined to these areas. The ban imposed in May 1948 on the export of bullion to Pakistan was relaxed in December 1948 when the two Dominions agreed to permit travellers, on a reciprooal basis, to take with them as personal luggage reasonable quantities of jewellery including that made wholly or mainly of gold,

Bullion Market.

In pursuance of one of the recommendations of the Bombay Cabinet Committee and at the instance of the Provincial Government, a new Association called the Bombay Bullion Association was formed in September 1948 to replace the three existing institutions, namely, the Bombay Bullion Exchange, the Marwari Chamber of Commerce and the *Tukda* (Silver) Market, trading in bullion in the City of Bombay. The Government of Bombay applied the Bombay Forward Contracts Control Act, 1947 to bullion with effect from 25th December, 1948 and, in terms of that Act, reoognised the Bombay Bullion Association as the sole Association for the purpose of forward trading in bullion in the City of Bombay. The bye-laws of the new Association were approved in March 1949, and forward trading under its auspices was inaugurated on 2nd April on the basis of monthly settlement. The bullion market has not, however, functioned smoothly since, conditions of crisis or near-crisis developing frequently as a consequence of excessive speculative activity in a narrow market.

As regards trading in the ready market, the quotations of both the metals ruled generally higher than in the preceding year. Apart from continued uncertainties in the internal and international situation, the chief bullish factors included the generally tight statistical position during the greater part of the year and the reported diversion of a part of the funds from the Stock Exchange consequent on the bearish trend in share values.

In gold, there was a temporary setback in the latter part of July as a result of which the average ready rate for that month dropped to Rs. 113-7-3 from Rs. 115-4-6 in June. In August, the market firmed up, the ready rate touching a new record level on 31st August, following rumours (since officially denied on 3rd September) of demonetisation of hundred-rupee notes.

Thereafter, the undertone continued to be comparatively steady, the monthly average price moving between Rs. 115-O-7 (September) and Rs. 113-0-l (December). From the middle of January 1949, there was a pronounced rise in quotations, sentiment having been influenced partly by the strike in the Kolar Gold Fields. The average price for February shot up to Rs. 117-12-8. The succeeding two months witnessed a setback on reported raising by banks of their rates against gold loans, rumours early in March of possible imports of bullion on a large scale (since officially denied on 21st March) and of a fall in the price of gold in the free markets abroad. The last two months of the year, however, witnessed a distinct revival, the market coming once again into the firm grip of bulls. The average rate which had worked out lower at Rs. 112-5-8 and Rs. 112-3-7 respectively in March and April, moved up to Rs. 117-0-8 in May and Rs. 117-7-9 in June. The highest and lowest rates during the year were Rs. 121-O-O on 31st August, 1948 and Rs. 103-0-O on 23rd March, 1949. The closing rate as on 30th June, 1949 was Rs. 114-14-O as against Rs. 115-3-O at the end of the preceding accounting year.

The silver section evinced a generally timer tendency. There were occasional reactions, for example, during the latter half of September 1948 and again during the early part of April 1949, but these proved temporary, the undertone continuing to be mainly bullish. The average ready rate, which in June 1948 was Rs. 173-13-2, moved up to Rs. 176-4-l in August, and, after a temporary recession in September to Rs. 174-6-2, started moving up again almost continuously until it touched Rs. 187-12-5 for the month of February. From about the middle of February up to about the middle of April, there was a recession, the ahief bearish factors being large arrivals from Cutch and Saurashtra, and also imports on a large scale of silver nitrate from the United Kingdom. The last two months, however, witnessed a distinct upward trend, the bulls having regained their dominating position. The average rate, which had gone down to Rs. 178-9-5 for April; worked out to Rs. 186-10-3 during June. The highest and lowest levels during the year were Rs. 192-12-O on 13th June, 1949 and Rs. 167-O-O on 9th July, 1948. The ready rate as on 30th June stood substantially higher at Rs. 182-10-o as against Rs. 174-15-O at the end of the preceding year.

Money Market.

The money market in Bombay witnessed unusual stringency with a sharp rise in money rates during February to April, 1949. This was largely due to the super-imposition, on the normal seasonal requirements, of demands for funds for financing imports on a large scale as the result of a more liberal import policy, the carrying of stocks which could not be quickly moved owing to transport difficulties, and collections of income-tax arrears and provisional assessments. The call money rate among the larger scheduled banks, which was quoted at ½ per cent since the end of July 1947 rose to ½–¾ per cent on 19th November, 1948 and after reverting to the previous level for a short time from 24th November, rose again to ½–¾ per cent on 11th December and further to ¾ per cent on the 24th. From January 1949, the rate among the exchange and larger Indian scheduled banks (available separately from the rate among other Indian banks from 21st January) moved up by steps from ¾ per cent to 1¼ per cent on 9th April. During the last quarter of the year, with the progress of the slack season, money rates eased gradually, the call money rate among the exchange and larger Indian scheduled banks declining from 1–1¼ per cent on 23rd April to ½ per cent on 2nd June. The call money rate among other Indian banks which was quoted at 1½–1¾ per cent on 21st January, 1949 eased to 1–1¼ per cent a week later, but rose to 1¼ per cent on 26th March and further to 1½ per cent on 2nd April. It eased somewhat during May and early June but hardened to 1–1¼ per cent on 18th June. The call money rate in Calcutta remained steady at ½ per cent throughout the year, except for a slight rise in the last week of March when it was quoted at ¾ per cent.

The rates (Bombay) for 3 and 6 months deposits also hardened during the latter half of the year. The former rose from 1–1¼ per cent to 1–1½ per cent at the beginning of January 1949 and further to 1¼–1½ per cent on the 21st ; but from the end of the month to 23rd April it was lower at l-1;) per cent ; after that it again moved up to 1¼–1½ per cent but on 18th June reverted to 1–1¼ per cent. The latter rate which was being quoted at 1¼–1½ per cent, rose to 1½–1¾ per cent on 3rd January and has since been quoted at that level. The 12 months' rate remained unaltered at 1¾–2 per cent throughout the year. The other rates such as the Imperial Bank of India Hundi rate and the Bazar Bill rates also hardened in January and February 1949 owing to the exoeptionally tight conditions in the money market during that period.

There was a good response to the Government of India Treasury bills in the first quarter of the year under review, and the amount sold to the public during July-September, 1948 was Rs. 32.23 crores as against only Rs. 12.70 crores during the corresponding period of the previous year. With the commencement of the busy season in October and the growing stringency in the money market the response to the Treasury bills dwindled, and their offer to the public was suspended after 9th November, 1948. By 1st February, 1949 all the Treasury bills outstanding with the public were paid off.

As part of their anti-inflation programme, the Government of India offered to the public for sale on tap from 15th October a new form of short-term obligation, namely, the Treasury

Deposit Receipts with maturities of six, nine and twelve months and bearing interest at 1, 1) and 1½ per cent per annum respectively, subject to income-tax. The amounts issued and discharged upto 1st July, 1949 were Rs. 457.75 lakhs and Rs. 96 lakhs respectively, the net outstandings with the public on that date being Rs. 361.76 lakhs.

Government Loans.

The Central Government's loan operations during the year under review consisted of the issue of one new loan, the 2½ per cent Loan, 1955, and the repayment of three loans, namely, (1) the 2¾ per cent Loan, 1948-52, (2) the 4 per cent Loan, 1948-53 and (3) the Five-Year Interest-Free Prize Bonds, 1949.

On 23rd September, 1948 the Government announced their decision to float on 1st October, 1948, at par a new loan for Rs. 20 crores bearing interest at 2½ per cent per annum and repayable at par on 1st October, 1955. The list was opened on 1st October and closed at 12 noon the same day, the subscriptions having amounted to approximately Rs. 20 crores.

The balance of the 2¾ per cent Loan, 1948-52 (after the conversion of about Rs. 35 crores of that loan into the 2¾ per cent Loan, 1962 on 1st June, 1948 noticed in the last Report) was repaid on 15th July, 1948. Of the outstanding balance of Rs. 52.33 crores, the amount repaid during the year came to Rs. 51.45 crores. In accordance with the notice of redemption given on 14th September, the 4 per cent Loan, 1948-53, the outstanding of which amounted to about Rs. 5 crores, was repaid on 15th December. The Five-Year Interest-Free Prize Bonds, 1949 also fell due for repayment from 15th January, 1949, and, out of a total outstanding of Rs. 5.30 crores, the amount repaid up to 30th June came to Rs. 4.47 crores. On 29th April the Government announced their decision to repay at par on 1st August, 1949, the whole of the 3 per cent Loan, 1949-52, the amount outstanding at the end of April being Rs. 66.64 crores. By a further announcement on 25th June the holders of the above-mentioned loan were given the option of converting their holdings at par, between 4th July and 8th July, 1949, either into the existing 2½ per cent Loan, 1955 or into the existing 2¾ per cent Loan, 1962, the issue prices being Rs. 99-12 and Rs. 99-8 respectively for every Rs. 100 of the loan applied for.

Only one Provincial Government, viz., the C.P. and Berar Government, entered the money market during the year. The loan was for Rs. 2 crores, bearing interest at 3 per cent and repayable at par on 1st September, 1964, the issue price being Rs. 99-O for every Rs. 100 nominal. The list was opened on 1st September and closed within an hour of the same day, the loan having been oversubscribed. On 21st June, 1949, the 3 per cent C.P. and Berar Loan, 1949, which at the end of May amounted to Rs. 72.92 lakhs, was repaid.

Repatriation of Sterling Debt.

During the year, the repayment of repatriated Sterling Stocks not surrendered earlier was continued. The amount thus repatriated was $106,963, the rupee counterparts created totalling Rs. 59,875.

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

The scheme for the conversion of Promissory Notes into Stock Certificates and vice versa (both free of charge), first introduced in 1942, continued to be operative during the year. During the year, Promissory Notes converted into Stock Certificates amounted to Rs. 24.42 crores, while Rs. 36.65 crores of Stock Certificates were reconverted into Promissory Notes. 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 1949, 46.57 per cent of the total rupee debt was held in such Accounts as compared to 45.99 per cent last year.

Scheduled Banks.

During the year under review, three banks were included in and one excluded from the Second Schedule to the Reserve Bank of India Act. The total number of scheduled banks on 30th June, 1949 was 101. (The names marked with an asterisk in the list of scheduled banks appended to this Report indicate the additions to the schedule during the year.) The usual inspection before inclusion was instituted in the case of all the three banks added to the schedule. Applications from 7 banks were under consideration at the end of the year.

The table given below compares the position of the scheduled banks in India as on 2nd July, 1948 and 1st July, 1949.

(In thousands of rupees.)

	2nd July, 1948	1st July, 1949	Difference (+) or (—)
1. Demand Liabilities ..	696,49,35	595,67,51	—100,81,84
2. Time Liabilities ..	311,08,08	(24,86,66)	(—6,88,86)
		279,53,22	— 31,54,86
	(59,51)	(15,00)	(—44,51)
3. Cash in hand	40.16.17	42,58,65	+ 2,42,48
4. Balances with the Reserve Bank ..	77,92,67	66,44,79	— 11,47,88
5. Advances	434,31,94	440,70,51	+ 6,38,57
6, Bills Discounted ..	16,39,08	15,20,30	— 1,18,78

Note :—Borrowings from banks are shown within brackets against items 1 and 2.

A comparison of the figures as on 1st July, 1949 with the corresponding figures of the preceding year shows the following changes. The total demand and time liabilities of scheduled banks in India, in contrast with the previous year's trend, recorded a steep fall of Re. 132.37 crores during the year to Rs. 875.21 crores, the fall being more pronounced during the busy season from October 1948 to May 1949. Of this decline, the major portion, namely, Rs. 100.82 crores, occurred under demand liabilities, and the proportion of demand liabilities to total liabilities declined from 69.1 per cent on 2nd July, 1948 to 68.1 per cent on 1st July, 1949. The increase in inter-bank borrowings (available separately since 1st July, 1948) was as much as Rs. 16.90 crores from October 1948 to March 1949 ; on 1st July, 1949, inter-bank borrowings stood at Rs. 25.02 crores. Total cash on hand and balances with the Reserve Bank declined by Rs. 9.05 crores to Rs. 109.03 crores, mainly as a result of an increase in the trade demand for funds ; the excess balances over the statutory minimum with the Reserve Bank also fell from Rs. 36.88 crores to Rs. 31.07 crores. Advances after touching a low of Rs. 389.59 crores on 24th September, 1948 moved up to a peak of Rs. 496.81 crores on 6th May, 1949 and stood at Rs. 440.71 crores on 1st July. The proportion of advances and bills discounted to total deposit liabilities consequently rose from 44.73 per cent on 2nd July, 1948 to 52.09 per cent on 1st July, 1949.

During the year under review 26 banks including 3 provincial co-operative banks approached the Reserve Bank of India for financial accommodation, the total amount of loans granted being Rs. 53 .OO crores as against Rs. 2.29 crores advanced to 12 banks in the previous year.

The total number of offices of scheduled banks including head offices, branches, pay offices, etc., declined from 3,499 on 30th June, 1948 to 3,008 on 30th June, 1949, a decrease of 482 as against only 76 in the previous year. This reduction in the number of offices was due partly to the exclusion of offices in Pakistan on the establishment of the State Bank of Pakistan on 1st July, 1948 and partly to the slow rate of expansion of branches owing to the operation of the Banking Companies (Restriction of Branches) Act, 1946, and the Banking Companies (Control) Ordinance, 1948. The newly scheduled banks accounted for an addition of 48 branches, while 19 new offices were opened at places which were not 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 banks registered and working in the Indian Union stood at 657 (including 95 loan companies) at the end of 1948 as against 688 at the end of 1947. The number submitting returns as on 31st December, 1948, under Section 277L of the Indian Companies Act was only 360, with total demand and time liabilities amounting to Rs. 38.60 crores, as against 439 banks with total demand and time liabilities amounting to Rs. 47.83 crores at the end of 1947. The deoline in the number of banks submitting returns was mainly due to the non-submission of returns by most of the banks in West Bengal. On the basis of available data, the percentage of cash to total liabilities maintained by the 360 banks as a whole came to 8.8 as compared with 7.2 maintained by 439 banks at the end of 1947.

During the year, one indigenous banker was included in the list of non-scheduled banks and indigenous bankers approved for concession rates for remittances under Appendix III of the Reserve Bank's scheme of remittance facilities introduced in October, 1940. Ten banks were excluded from the list: one of these was included in the Second Schedule to the Reserve Bank of India Act and thus became eligible for better remittance facilities, six went into liquidation, and three were deleted from the list, of which two ceased to function in the Indian Union and the third ceased to do banking business. The total number of non-scheduled banks in the list thus declined from 78 to 68, while the total number of indigenous bankers rose from 5 to 6.

The additional facility of opening accounts with the Reserve Bank of India afforded to the non-scheduled banks from 15th February, 1945 was continued during the year under review and one non-scheduled bank was admitted to this facility.

Clearing House Facilities.

The management of the Clearing House at Calcutta was taken over by the Reserve Bank of India from the Calcutta Clearing Banks Association with effect from 1st October, 1948.

Operations of the Issue Department.

The balance sheet of the Bank as on 30th June, 1949, together with the profit and loss account appears on pages 44.47. Profit and loss account figures for the preceding two years have also been incorporated to facilitate comparison.

The Reserve Bank of India ceased to be the monetary authority for the Dominion of Pakistan with the establishment of the State Bank of Pakistan on 1st July, 1948. On this date, as mentioned earlier, assets of the Issue Department worth Rs. 51.57 crores were transferred to the State Bank of Pakistan against an equivalent liability of Pakistan inscribed notes taken over by the State Bank. During the year to 30th June, 1949 assets worth Rs. 82.20 crores have been provisionally allocated to the State Bank of Pakistan against India notes returned, in terms of the Pakistan (Monetary System and Reserve Bank) Order, 1947, as amended in March 1948.

India notes in circulation stood at Rs. 1,153.75 crores as on 30th June, 1949 as against Rs. 1,268.86 crores on 30th June, 1948, thus showing a decline of Rs. 115.11 crores over the year. Of this reduction, India notes returned by the State Bank of Pakistan during the year ended 39th June, 1949 accounted for Rs. 82.20 crores. The net contraction in notes in circulation in the Indian Union alone, over the year under review, was thus Rs. 32.91 crores.

On the assets side, " Gold Coin and Bullion " which continued to be valued at the statutory rate of Rs. 21-3-10 per tola, declined from Rs. 44.42 crores on 30th June, 1948 to Rs. 40.02 crores on 30th June, 1949 as a result of the transfer of assets to the State Bank of Pakistan mentioned above. The fall in Foreign Securities* from Rs. 1,135.32 crores as on 30th June, 1948, to Rs. 1,080.80 crores on 23rd July, was also accounted for mainly by the transfer of securities worth nearly Rs. 35 crores to the State Bank of Pakistan on 1st July, 1948. On 20th August, there was a further drop of Rs. 284.16 crores to Rs. 796.64 crores, reflecting the transfer to the U.K. Government in terms of the Indo-U.K. Financial Agreement for the purchase of stores and the funding of pension annuities. Foreign Securities continued to decline for the remainder of the year mainly owing to the transfer to Pakistan against notes returned from time to time and stood at Rs. 685.34 crores on 30th June, 1949. As a result, the percentage of gold and foreign securities to total notes issued fell sharply from 87.32 on 30th June, 1948, to 61.14 at the end of the year. " Rupee Coin " including Government of India one-rupee notes was steady round about Rs. 42-45 crores till April, but increased thereafter and closed for the year at Rs. 47.36 crores. 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 " which stood at Rs. 127.84 crores on 30th June, 1948 fell to Rs. 114.16 crores on 2nd July owing to the transfer of nearly Rs. 13.69 crores to the State Bank of Pakistan against Pakistan notes. However, on 20th August, they rose sharply to Rs. 378.31 crores as a result of the creation of ad *hoc* treasury bills to replace, almost wholly, the sterling securities transferred to the U.K. Government mentioned above. They stood at Rs. 413.72 crores at the end of the year, showing an increase of Rs. 285.88 crores over the year.

*** With effect from 1st January, 1949, in accordance with the obligations assumed by India as a member of the I.M.F., the Reserve Bank of India Act was amended so as to enable the Reserve Bank to hold other 'foreign securities' in addition to sterling. The term 'foreign securities ' thus replaced 'sterling securities ' as from that date.**

Operations of the Banking Department.

There was an almost continuous decline during the year under review in the total assets of the Banking Department from Rs. 486.83 crores to Rs. 294.88 crores. This was due partly to the transfer of balances of the Central and Provincial Governments and of scheduled banks in Pakistan to the State Bank of Pakistan on its establishment on 1st July, 1948, and partly to the sharp decline in the balances of the Central Government of India and banks in the Indian Union as well as in balances held abroad. The deposits of the Central Government of India rose from Rs. 215.03 crores on 30th June, 1948, to Rs. 241.82 crores on 29th October but subsequently fell, almost uninterruptedly. They stood at Rs. 128.39 crores at the end of the year. Deposits of the Provincial Governments in India which were at Rs. 19.36 crores on 30th June, 1948, declined gradually to touch Rs. 9.62 crores on 12th November, 1948. In the first week of March, they increased sharply to Rs. 46.96 crores owing to adjustments of the provincial share of income-tax, but thereafter declined, to close at Rs. 16.97 crores at the end of the year. Deposits of banks also dropped from Rs. 103.21 crores at the end of June, 1948 to Rs. 79.60 crores on 2nd July, as a result of the transfer of balances of the scheduled banks in Pakistan to the State Bank of Pakistan. In July, however, they increased sharply and touched Rs. 112.52 crores on the 30th. Thereafter they fell almost continuously and on 15th April, 1949, stood at Rs. 49.98 crores, mainly owing to the unusually heavy demand for funds during the 1948-49 busy season, mentioned previously. During May and June balances of banks increased slowly and stood at Rs. 67.45 crores at the end of the year.

On the assets side, " Balances held Abroad " fell gradually from Rs. 401.34 crores on 30th June, 1948 to Rs. 135.68 crores on 30th June, this year, reflecting partly the transfer to the State Bank of Pakistan on 1st July, 1948 and partly also the consistent drawings on our foreign exchange resources for financing of imports on a large scale especially in the latter half of 1948 and early in 1949. Investments which stood at Rs. 50.86 crores on 30th June, 1948 increased substantially and stood at Rs. 103.45 crores at the end of the year, owing mainly to the official support extended to the gilt-edged market.

Government Securities Market.

The Bombay gilt-edged market was generally quiet and on the whole steady during the year, except for a few setbacks reported to be due to the situation in Kashmir and Hyderabad, expectations in certain quarters of an upward revision of interest rates, and acute stringency in the money market in the latter half of the year. The Economic Adviser's index number of

Government Securities (1927-28=100) which stood at 114.6 in June 1948 fluctuated narrowly between 113.9 and 115.1 during the year, prices being sustained to a considerable extent by the Reserve Bank's discriminating open market purchases. The average for the year at 114.6 was lower than the previous year's at 116.4.

With the promulgation by the Government of India on 1st July, 1948 of an Ordinance restricting the transfer of Government of India securities held by or on behalf of the Nizam of Hyderabad, the market opened steady, and continued to be so till October. Other factors making for the uptrend in prices were the reappearance of institutional support partly owing to the repayment of the $2\frac{3}{4}$ per cent Loan, 1948-52, on 15th July, 1948, the swift and decisive action in Hyderabad, and the reassuring effect on investors of the flotation at par of Rs. 20 crores of the $2\frac{1}{2}$ per cent short-medium-dated Loan, 1955, on 1st October, 1948, which was taken as evidence of Government's desire not to abandon the cheap money policy. The market was further strengthened by the announcement on 14th September, 1948 of the repayment of the 4 per cent Rupee Loan, 1948-53 on 15th December, 1948, the amount outstanding in this Loan being Rs. 5.02 crores. For the rest of the year, except for some weakness following selling pressure in November, the trend was generally steady, prices fluctuating both ways with gains and losses confined generally to a narrow range. Acute stringency in the money market from February to April 1949, though mitigated to a certain extent by sizeable official support, had an adverse effect on trading in gilt-edgeds during this period. The 3 per cent Conversion Loan of 1946, for example, eased from Rs. 99-O at the end of February to Rs. 97-12, the lowest for the year, in the first week of April. In the last quarter of the year -the deoision to repay on 1st August, 1949 the whole of the 3 per cent Rupee Loan, 1949-52, amounting to about Rs. 67 crores, as well as of the 3 per cent Sterling Stock, 1949-52, strengthened the market. Prices especially of short-dateds improved slightly in June 1949, owing to investment support following a slight easing of stringency in the money market from the last week of May. As previously mentioned, the Government of India announced on 24th June, that the holders of the 3 per cent Loan, 1949-52 would have the option of converting their holdings at par into eitber the $2\frac{1}{2}$ per cent Loan, 1955 or the 29 per cent Loan, 1962, their issue prices being Rs. 99-12 and Rs. 99-8 respectively per Rs. 100.

The closing prices of gilt-edged securities for 1948-49 were only slightly lower than those for the previous year. A few short-dateds, however, showed moderate losses. The pattern of yields at the close of the year showed a gentle rise in the short-dated loans, but a more or less stable level in medium and longer dateds. The following table indicates the trend of prices and yields of some representative securities during the year :

	Opening 2-7-48 (1)	Highest (2)	Lowest (3)	Closing 30-6-49 (4)	Yield on (1) (5)	Yield on (4) (6)
	Rs. a.	Rs. a.	Rs. a.	Rs. a.	%	%
3% Loan 1949-52 ..	101 6	101 11	100 2	100 3	1.71	0.92
3% Loan 1953-55 ..	102 12	102 15	101 6	101 15	2.41	2.50
3% Loan 1957 ..	101 14	102 12	101 0	101 10	2.76	2.77
3% Loan 1963-65 ..	100 9	101 6	99 14	100 6	2.95	2.97
3% Loan 1970-75 ..	99 11	100 13	99 11	100 0	3.02	3.00
3 % Loan 1986 or Later (Conversion Loan of 1946) .	99 0	99 14	97 12	98 2	3.03*	3.06'

* lat yield.

The depression in the Bombay stock market which began in August, 1946 showed practically no signs of abatement during the year under review, except for occasional spells of increased activity with a slight improvement in prices. The rate of decline in prices was, however, smaller than during the previous two years. The Economic Adviser's Index Number (Base: 1927-28=100) of variable yield industrial securities gradually fell from 164.9 in July, 1948, to 136.5 in June 1949, except for a small and short-lived improvement in August 1948 when it stood at 167.3. The average index for the year under review stood at 164.9 as against 181.9 and 268.9 for 1947-48 and 194647 respectively. The major factors responsible for the absence of investment support were the uncertainty regarding the scope of private enterprise despite ministerial clarifications, political developments in Kashmir and Hyderabad, the growing communist influences in Eastern countries, the high level of personal income taxation, increasing demands by bbour and costs of produotion and the narrowing of profit margins.

Industrial Share Market.

The market remained bearish from July to November and equity prices drifted to lower levels, influenced by the news regarding the Hyderabad situation, the publication on 23rd September, 1948 of the Expert Committee's recommendations on profit-sharing in industry on a fifty-fifty basis, apprehensions regarding Government's anti-inflationary policy, the promulgation of the Dividend Limitation Ordinance on 29th October, 1948, end the notification relating to the restrictions on future issues of bonus shares. The decline was, however, checked to a certain extent by the Prime Minister's denial in the Dominion Parliament of rumours regarding the demonetisation of 100-rupee notes and freezing of bank balances, the swift and successful action in Hyderabad and the feeling that the Expert Committee's recommendations on profit-sharing would not adversely affect a majority of companies. A mild recovery was in evidence towards the close of November, the uptrend being assisted by larger buying enquiries prompted by optimistic expectations regarding increase in steel prices, the promulgation of the Ordinance empowering the Income-tax Investigation Commission to compound oases arising from tax evasion, and rumours that the Government would be more liberal in granting permissions for the issue of bonus shares.

From January 1949, although there were several favourable factors, such as the increase in cloth and steel prices, higher production reports from Jamshedpur, removal of the export duty on mill-made cloth, and ministerial clarifications regarding the role of private enterprise, the market was on the whole quietly easy. The drop in prices resulted from considerable selling pressure owing to the unusually stringent money conditions from February to April 1949, the worsening political situation in China and Burma, the decision of the Government of India to levy an excise duty of 25 per cent ad *valorem* on superfine cloth, and heavy liquidation and bear hammering of Tata Deferreds. Though the surplus railway budget led to a minor rally in February, declines to fresh levels were noticed in the ensuing months following dissatisfaction regarding tex concessions in the Central Budget and the imposition of excise duty on coarse cloth. In the early part of June, there was a moderate, improvement in prices, but this was purely technical. In the absence of sustained investment support, heavy selling, especially from the Unions and States, accounted for the reappearance of the downward trend in the latter part of the month, the closing quotation8 of most of the scrips for the year under review being considerably lower then those of the previous year.

Economic Perspective.

The overall picture of Indian economy which emerges from the facts given above does not show any appreciable improvement as compared to conditions twelve months ago. With the re-imposition of controls and the adoption of an anti-inflation programme, the price rise witnessed in the first half of 1948 has not only been halted but to some extent reversed. Monetary circulation has shown considerable contraction during the year and inflationary pressures in general have slightly abated. Nevertheless, Indian prices and costs are still high. There are no signs as yet of a revival of investment in the country. While gilt-edged securities have maintained their strength, the industrial share market has continued on the downward course and the prices of some of the major industrial shares are now close to the pre-war level.

Since September 1948 prices in the U.S.A. have shown a distinctly downward trend and although this may not develop into a serious depression, the stage is definitely set for a return to the buyers' market all the world over. Already, as recent events show, exports from soft currency areas to hard currency areas are meeting with some resistance. This is a situation which will have to be carefully watched. During the year several countries have tried to curb inflationary developments through fiscal and monetary measures. Attempts have also been made to achieve external equilibrium through export drives on the one hand and stringent import controls on the other. It is now four years since the end of the war, but the world situation is far from normal. World trade has still not regained its pre-war volume. National as well as international action will continue to be necessary for the restoration of the economic structures of the countries affected by the war and for the attainment of the objective of high and stable levels of employment with rising real incomes. Marshall Aid has made a valuable contribution in this direction. There has been a significant improvement in Europe's production in the course of the year. At the end of the first year of ERP it is clear that the task of rebuilding Europe is more difficult than was thought at the earlier stages. The progress of recovery in Asia has been exceedingly slow. Large parts of this continent have suffered on account of the continuance of disturbed internal conditions. In this background India presents a picture of great internal strength and stability. Politically, the integration of Indian States which has made it possible to evolve a uniform economic policy for the country represents a development which is of major significance. Many of the economic problems, some of them legacies of the war and some of the Partition, however, remain to be solved. Like the U.K., India needs larger production and larger exports. Production has improved somewhat during the year, but in some industries such as iron and steel, for instance, we are still unable to make full use of our installed capacity. Shortages of capital goods and technical personnel are serious handicaps. Machinery imports have been on a fairly large scale during the last year or two, but they are small in relation to our needs. It is clear that a concentrated drive and co-ordinated action will. be necessary to secure a substantial increase in production. Domestic investment has to be stimulated, but this has to come out of increased real earnings, if further inflationary pressures are to be avoided.

India's resources are large, but the seriousness of the short-term problem cannot be underrated. The immediate problem is the financing of the heavy imports of grain for feeding the country. At the same time the effort to increase our exports will have to be continued and even strengthened. Trying to maintain a balance by a reduction of imports may, under certain conditions, be inescapable, but it is not a solution of the real problem. The Indian economy today needs imports on a large scale, and these can be obtained in the main by increasing our earnings from exports. There has been a growing recognition abroad of the need for provision of capital and technical assistance to backward countries. A freer and larger flow of capital to underdeveloped areas would seem essential not only for a solution of the problem of dollar scarcity, but for ordered economic and political progress of the world as a whole.

By Order of the
Central Board of Directors,
B. RAMA RAU,
Governor.

APPENDIX

Scheduled Banks

1. Ajodhia Bank.
2. Allahabad Bank.
3. American Express Co., Inc.
4. Andhra Bank.
5. Australasia Bank.
6. Banco Nacional Ultramarino.
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 Hindustan.
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.* Bank of Rajasthan.

21. Bankers' Union.
22. Bareilly Corporation (Bank).

23.* Belgaum Bank.

24. Bengal Central Bank.
25. Bharat Bank.
26. Bharatha Lakshmi Bank.
27. Calcutta Commercial Bank.
28. Calcutta National Bank.
29. Canara Bank.
30. Canara Banking Corporation.
31. Canara Industrial and Banking Syndicate.
32. Central Bank of India.
33. Chartered Bank of India, Australia and China.
34. Comilla Banking Corporation.
35. Comilla Union Bank.
36. Comptoir Nation81 D'Es-compte de Paris.
37. Devkaran Nanjee Banking Co.
38. Dinajpur Bank.
39. Eastern Bank.
40. Exchange Bank of India and Africa.
41. Gadodia Bank.
42. Grindlays Bank.
43. Habib Bank.
44. Hind Bank.

46. Hindustan Commercial Bank.

46. Hindusthan Mercantile Bank.

47. Hongkong and Shanghai Banking Corporation.
48. Hooghly Bank.
49. Hyderabad State Bank.
50. Imperial Bank of India.
51. Indian Bank.

62. Indian Overseas Bank.

53. Indo-Commercial Bank.
54. Indo-Mercantile Bank.
55. Jodhpur Commercial Bank.
56. Jwala Bank.
57. Karnani Industrial Bank.
58. Kumbakonam Bank.
59. Lakshmi Commercial Bank.
60. Laxmi Bank.
61. Lloyds Bank.
62. Mahaluxmi Bank.
63. Mercantile Bank of Hyderabad.
64. Mercantile Bank of India.

65.* Mirai State Bank.

66. N & r Bank.
67. Narang Bank of India.
68. Nath Bank.
69. National Bank of India.
70. National Bank of Lahore.
71. Nation81 City Bank of New York.
72. National Savings Bank.
73. Nedungadi Bank.
74. Netherlands India Commercial Bank, N. V.
75. Netherlands Trading Society.
76. New Bank of India.
77. New Citizen Bank of India.
78. Noakhali Union Bank.
79. Orient81 Bank of Commerce.
80. Oudh Commercial Bank.
81. Palai Central Bank.
82. Pioneer Bank.
83. Prabhat Bank.
84. Pratap Bank.
85. Presidency Industrial Bank.
86. Punjab and Sind Bank.
87. Punjab Co-operative Bank.
88. Punjab Nation81 Bank.
89. Southern Bank.
90. South India Bank.
91. South Indian Bank.
92. Tanjore Permanent Bank.
93. Traders' Bank.
94. Travancore Bank.
95. Travancore Forward Bank.
96. Tripura Modern Bask.
97. Union Bank of India.
98. United Commercial Bank.
99. United Industrial Bank.

169. Universal Bank of India.

101. Vysya Bank.

* Included in the Second Schedule during the year ended June 1949.

RESERVE BANK OF INDIA

Balance Sheet as at 30th June, 1949

ISSUE DEPARTMENT

LIABILITIES	Rs.	a.	p.	Rs.	a.	p.	ASSETS	Rs.	a.	p.	Rs.	a.	p.
Notes held in the Banking Department..	32,69,01,504	8	0				A. Gold Coin and Bullion :- (a) Held in India	40,01,70,843	9	5			
Notes in circulation ..	11,53,74,98,184	0	0				(b) Held outside India	*Nil*					
Total notes issued . .				11,86,43,99,688	8	0	Foreign Securities ..	6,85,34,37,854	2	5			
							Total of A ..				7,25,36,08,697	11	10
							B. Rupee Coin. .				47,35,67,597	7	3
							Government of India Rupee Securities ..				4,13,72,23,393	4	11
							Internal Bills of Exchange and other Commercial Paper . .				Nil		
Total Liabilities Rs.				11,86,43,99,688	8	0	Total Assets Rs.				11,86,43,99,688	8	0

Ratio of Total of A to Liabilities : 61.138 per cent.

BANKING DEPARTMENT

LIABILITIES	Rs.	a.	p.	ASSETS	Rs.	a.	p.
Capital paid up	5,00,00,000	0	0	*Notes*	32,69,01,504	8	0
Reserve Fund	5,00,00,000	0	0	Rupee Coin	12,63,709	0	0
Deposits :—				Subsidiary Coin	1,08,744	8	6
(a) Government-				Bills Purchased and Discounted : -			
(1) Central Government ..	1,28,39,33,862	6	5	(a) Internal	57,19,000	0	0
(2) Other Governments ..	16,96,60,055	14	0	(*b*) External	Nil		
(*b*) Banks	67,45,21,200	0	11	(c) Government Treasury Bills ..	2,27,86,401	16	8
(c) Others	61,29,04,352	7	11	Balances held abroad*	1,35,68,30,074	15	0
Bills Payable	3,27,05,449	6	9	Loans and Advances to Governments ..	10.712,00,000	0	0
Other Liabilities	7,50,45,551	11	2	Other Loans and Advances	7,31,60,715	4	2
				Investments	1,03,44,82,169	8	0
				Other Assets	2,03,18,152	3	10
Total Liabilities Rs. ..	2,94,87,70,471	15	2	Total Assets Rs. ..	2,94,87,70,471	15	2

* Includes Cash and Short-term Securities.

K. P. R. MENON,
Chief Accountant (Offg.)

B. RAMA RAU,
Governor.

C. R. TREVOR,
Deputy Governor.

M. G. MEHKRI,
Deputy Governor.

Dated the 22nd July, 1949.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED								
	30th June 1949.			30th June 1948.			30th June 1947.		
INCOME	Rs.	a.	p.	Rs.	a.	p.	Rs.	a	p.
Interest, Discount, Exchange, Commission, etc. ..	11,69,98,048	12	4	12,72,98,139	13	10	10,12,43,511	16	11
EXPENDITURE									
Establishment ..	1,49,81,665	14	2	1,33,46,734	12	6	1,09,94,316	1	3
Directors' and Local Board Members' fees and expenses	83,393	10	0	81,678	10	0	66,846	14	0
Auditors' fees	22,600	0	0	22,600	0	0	22,500	0	0
Rent, Taxes, Insurance, Lighting, etc. ..	4,13,299	6	7	4,47,513	1	8	4,07,213	13	1
Law charges ..	3,361	11	6	1,230	0	0	14,311	3	6
Postage and Telegraph charges	1,68,477	5	6	2,15,659	4	10	1,34,631	4	8
Remittance of Treasure	14,58,715	3	0	13,76,288	10	0	10,90,598	7	7
Stationery, etc.	4,47,172	8	11	3,76,200	13	4	2,63,587	1	1
Security Printing—(Cheque, Note 'Form;; etc.)' ..	38,57,790	3	1	29,01,517	1	11	38,26,058	13	2
Depreciation and Repairs to Bank's property	5,96,617	8	9	4,34,546	3	6	3,22,107	3	11
Agency charges	28,79,706	6	3	27,69,009	13	11	28,91,081	6	7
Contributions to staff and superannuation funds ..	76,700	0	0	74,100	0	0	84,200	0	0
Miscellaneous expanses	14,38,917	10	4	14,22,832	7	8	8,98,749	11	2
Net available balance	9,05,69,731	4	3	10,38,28,428	14	8	8,02,27,309	15	11
Total Rs. ..	11,69,98,048	12	4	12,72,98,139	13	10	10,12,43,511	16	11

PROFIT AND LOSS ACCOUNT—*continued*

	FOR THE YEAR ENDED								
	30th June 1949.			30th June 1948.			30th June 1947.		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Amount set aside for payment of dividend at the rate of 3½ per cent per annum	8,75,000	0	0*	17,50,000	0	0	17,50,000	0	0
Amount transferred to the Reserve Fund	*Nil*			*Nil*			*Nil*		
Surplus available for payment of an additional dividend at the rate of ½ per cent.	1,25,000	0	0*	2,50,000	0	0	2,50,000	0	0
Surplus payable to the Central Government .. ..L - 4	8,95,69,731	4	3	10,18,28,428	14	8	7,82,27,309	16	11
Balance carried forward							*Nil*		
Total Rs.	9,05,69,731	4	3	10,38,28,428	14	8	8,02,27,309	16	11

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By Balance on 30th June 1949	5,00,00,000	0	0
By transfer from Profit and Loss Account	*Nil*		
Total Rs. ..	5,00,00,000	0	0

* Amount set aside on 1st January, 1949 for payment of dividend in respect of the period from 1st July to 31st December, 1948 under Section 3(2) (*b*) of the Reserve Bank (Transfer to Public Ownership) Act, 1948—No. LXII of 1948.

K. P. R. MENON,
Chief Accountant (Offg.)

B. RAMA RAU.
Governor.

C. R. TREVOR,
Deputy Governor.

M. G. MEHKRI,
Deputy Governor.

Dated the 22nd July, 1949.

REPORT OF THE AUDITOR8

TO THE GOVERNOR-GENERAL OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Benk as at 39th June, 1949.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Offices et Calcutta, Bombay and Madras and with the Return8 submitted and certified by the Managers of the other Offices and Branches, which Returns are incorporated in the above Balance Sheet, and report that where we have called for explanations and information from the Central Board such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing the particulars prescribed by, and in which the assets have been valued in accordance with, the Reserve Bank of India Act, 1934, and the Regulations framed thereunder and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Bank.

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

Dated the 22nd July, 1949.

G. Claridge & Co., Ltd., Bombay.