RESERVE BANK OF INDIA

Report of the Central Board of Directors for the year ended 30th June 1950

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

AUGUST 1950

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REPORT

OF THE

CENTRAL BOARD OF DIRECTORS

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August 1950

CENTRAL BOARD OF DIRECTORS

Governor	Sir Benegal Rama Rau, C.I.E.
Deputy Governors	M.G. Mehkri, Esq. N. Sundaresan, Esq., O.B.E.
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., Secretary to the Government of India, Ministry of Finance, (Department of Economic Affairs).

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.
O.T. Jenkins, 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.
Sahu Jagdish Parshad.

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, 194930th June, 1950

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 on the working of the Bank and the Accounts of the Bank for the sixteenth accounting period beginning on 1st July, 1949 and ending on 30th June, 1950.

Annual Accounts

2. The Bank's income for the year under review amounted to Rs. 12·90 crores. After payment of expenses of administration and provision for sundry liabilities and contingencies amounting to Rs. 2·99 crores, the net profit available for payment to the Central Government in accordance with Section 47 of the Reserve Bank of India Act amounted to Rs. 9·91 crores as against Rs. 8·96 crores transferred to the Central Government last year. The increase of Rs. 95 lakhs in net profits during the year was mainly the result of a rise under 'Interest' ; appropriations from this head for depreciation on securities were on a smaller scale than in the previous year. The rise under 'Interest' was partially offset by reductions under 'Discount' and 'Exchange', the decline in the former being due to a fall in the Bank's holdings of Sterling Treasury bills and that in the latter to smaller sales of sterling to scheduled banks as compared with last year.

Expenditure showed an increase of Rs. 34·89 lakhs. The principal items which contributed to the increase included 'Security Printing' and 'Establishment'. The cost of 'Security Printing' went up by Rs. 22·36 lakhs owing partly to an overall rise in printing charges and partly to larger indents placed with the India Security Printing Press for printing the new 'Asoka Pillar' notes issued on 26th January, 1950. 'Establishment' expenditure was higher by Rs. 11·16 lakhs, mainly as a result of additions to the staff in the Department of Banking Operations for the discharge of the additional duties imposed on it under the Banking Companies Act, 1949.

3. 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 appointed by the Government of India as auditors of the Bank in terms of notification No. F.3(54)-F.I/49 dated 31st August, 1949 issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act.

Auditors

4. Last year's Report made mention of the basis on which compensation was to be paid to shareholders on the nationalisation of the Reserve Bank. Out 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 of shares tendered for payment of compensation up to 30th June, 1950 was 4,59,969, the total amount of compensation paid in the form of 3 per cent. First Development Loan, 1970-75 being Rs. 5·08 crores and in the form of cash Rs. 31 lakhs.

Compensation to Shareholders

5. During the accounting year, no further releases of Issue Department assets were made to the State Bank of Pakistan. Certain adjustments by way of exchange of sterling securities for rupee securities already released to the State Bank were, however, necessary since the amount actually paid in sterling to the U. K. Government on account of military stores and pensionary liability, etc., was less than the provisional estimate adopted for the purpose of apportioning the sterling assets between the two countries. These adjustments, which involved a transfer of additional sterling securities for Rs. 12·19 crores to the State Bank of Pakistan against the return of an equivalent amount of rupee securities by it, were effected in May 1950.

Transfer of Assets to the State Bank of Pakistan

6. The term of appointment of Mr. (now Sir) Cecil R. Trevor, as Deputy Governor of the Bank which was due to expire on 15th August, 1949 was extended by the Central Government up to 31st December, 1949. By a notification No. F. 3 (52)-F.I/49 dated 26th December, 1949, the Central Government under Sections 8(1)(a) and 8(4) of the Reserve Bank of India Act appointed Mr. N. Sundaresan to succeed Sir Cecil Trevor as Deputy Governor with effect from 1st January, 1950.

Composition of the Central Board

In accordance with the provisions of Section 8(6) of the Reserve Bank of India Act, lots were drawn by the Central Board at their meeting held on 19th December, 1949 and Directors Sir Manilal B. Nanavati and Mr. Ramrao Madhaorao Deshmukh were selected to retire on 14th January, 1950. They were renominated as Directors with effect from 15th January, 1950 by the Central Government in exercise of the powers conferred by Sub-section (1) (c) and Sub-section (7) of Section 8 of the Act.

Meetings of the Central Board and its Committee

7. Seven meetings of the Central Board were held during the year under report. Of these, four were held in Bombay, two in New Delhi and one in Calcutta. The Committee of the Central Board met fifty-seven times : fifty times in Bombay, five times in Calcutta and once each in New Delhi and Madras.

Local Boards

8. The vacancy caused by the resignation of Mr. Sheikh Mohammed Bashir, a member of the Northern Area Local Board (referred to in last year's Report) was filled by the Central Board by the nomination of Sahu Jagdish Parshad of Pilibhit.

The Central Board regrets to record the death on 26th March, 1950 under tragic circumstances of Mr. A. L. Cameron, Vice-Chairman of the Eastern Area Local Board of the Bank. Mr. O. T. Jenkins of Messrs. Balmer Lawrie & Co. Ltd., Calcutta, has been nominated by the Central Board to be a member of the Eastern Area Local Board in the consequential vacancy.

Bank's Offices

9. During the year, Note Cancellation Sections were opened at Ahmedabad and Patna, while the Section at Meerut opened last year was closed down.

Bank's Premises

10. In the last year's Report, mention was made of the work of construction of an additional storey on the roof of the adjoining "Amar Building" in Bombay purchased by the Reserve Bank with a view to meeting the urgent requirements of additional accommodation. The work of construction was completed during the year under review and the Bank's Exchange Control Department has since been shifted from the main building to occupy the newly-erected floor.

Further progress has been made in the Bank's schemes for housing the staff at Bombay. Architects have been appointed for the proposed staff colonies at Lamington Road, Byculla, and Lady Hardinge Road, Matunga, and plans have been drawn up for the provision of suitable residential accommodation for nearly a thousand families with amenities such as a playground, a kindergarten school, a community centre, etc. It is expected that construction work will start after the monsoon is over and the whole scheme will be completed in two to three years. The Bank has also purchased a small newly-constructed building at Matunga, which is expected to house about a dozen officers and their families, and has built quarters for four more officers in the property at Colaba. Negotiations were in progress for the purchase of a large plot of land in Alipore, Calcutta, and in due course, Calcutta will also have a modern housing colony accommodating about four to five hundred of the Bank's employees and their families.

Plans for the Bank's buildings at Nagpur and Delhi have been completed and construction work is expected to start very shortly. Possession has now been secured of part of the sites selected for the branch offices at Patna and Lucknow and the architects are busy with the preparation of the necessary plans. The Bank has also requested the Governments of Orissa and the Punjab (India) to reserve suitable sites for branches to be established in the new capital cities, Bhubaneshwar and Chandigarh.

Department of Banking Operations

11. Mention was made in the last year's Report of the passing by the Union Parliament of the Banking Companies Act, 1949, and of its more important provisions. Under Section 36 (2) of the Act, the Reserve Bank is required to make an annual Report to the Central Government on the trend and progress of banking in the country, with particular reference to its activities under Clause (2) of Section 17 of the Reserve Bank of India Act, 1934, including in the Report its suggestions, if any, for the strengthening of banking business throughout the country. The first of such Reports, which deals in detail with the banking situation in the country during the year 1949, is being finalised and it will shortly be submitted to the Government. The present Report will, therefore, deal only very briefly with the measures taken by the Bank to discharge the new statutory duties and responsibilities imposed on it.

In the U.S.A. where conditions are in some respects similar to those in India, as for instance, in regard to the vastness of the area to be dealt with, the multiplicity of banks, the wide differences between region and region, etc., the supervision and control of banks is entrusted to several Federal and State authorities. The Comptroller of Currency examines the National Banks twice a year and in addition, the Treasury, the Federal Reserve Banks, the Federal Deposit Insurance Corporation and the various States periodically inspect the banks under their supervision. In India, however, the Banking Companies Act centralises all. supervision as well as control over banks in the hands of the Reserve Bank of India. The main duties imposed upon the Reserve Bank in this respect may be classified as under :

(a) the supervision and inspection of banks,
(b) the licensing of banks and control over opening of branches,
(c) the examination and sanction of schemes of arrangement and amalgamations,
(d) the liquidation of banking companies,
(e) the receipt and scrutiny of prescribed returns, and
(f) advising banks generally and helping them in times of emergencies.

(a) *Supervision and Inspection.*

The most important of the new duties, that of supervision, had already formed part of the functions of the Reserve Bank before the passing of the recent legislation, and for that purpose the Bank had maintained close touch with banks in the country. The Reserve Bank of India had been carrying on inspections of individual banks under the Reserve Bank of India Act and under the Banking Companies (Inspection) Ordinance, 1946, for the purpose of determining whether the banks should be included in or excluded from the Second Schedule to the Act, and for satisfying itself that the affairs of the banks were not conducted in a manner detrimental to the interests of the depositors.

With the passing of the Banking Companies Act and the amendment of Section 42(6) of the Reserve Bank of India Act, the position of the Reserve Bank in relation to the scheduled and non-scheduled banks has changed and the Reserve Bank is now empowered to conduct inspections of banks for a variety of purposes on its own initiative.

For the adequate discharge of the new duties and responsibilities under the Banking Companies Act, the Reserve Bank has decided to institute a systematic periodical inspection of all banking companies governed by the Act. The ultimate aim is to create an organisation for an annual inspection of each bank and steps are being taken to recruit the requisite staff. The training of this staff will, however, take some time. In the meanwhile as many banks as possible will be inspected, but the inspections will not be confined to banks whose working is regarded as unsatisfactory. The primary object of the inspections will be to help banks in the establishment of sound banking traditions by drawing attention to defects or unsatisfactory working methods at an early stage.

(b) *Licensing of Banks and Control over Branch Banking.*

Under the Banking Companies Act, every company has to apply for a licence to commence or carry on banking business, and before issuing any licence the Reserve Bank has to satisfy itself, in the case of an existing banking company, that the banking company is in a position to pay its depositors in full as their claims accrue and that the affairs of the company are not being conducted to the detriment of its depositors.

It has been decided to inspect all banking companies before granting licences to them. A tentative programme of inspections has been drawn up and it is expected that by the end of 1952 all the banking companies would be inspected for the purpose of determining their eligibility for licences.

Under the Banking Companies Act, no banking company can open a new place of business without prior permission in writing by the Reserve Bank. Such permission is also necessary in the case of Indian banks desiring to open branches outside India. In the consideration of the applications for the opening of new branches, the Reserve Bank of India is required to satisfy itself, if necessary by means of an inspection, regarding the financial condition and history of the banking company, the general character of its management, the adequacy of its capital structure, and the earning prospects of the proposed office. It is also expected to assure itself that public interests will be served by the opening of such an office. During the year, 79 such applications were disposed of, out of which 75 were for opening 95 new branches and 4 for changing the location of 6 existing ones. Licences were issued for opening 66 new branches and for changing the location of all the 6 for which permission had been sought.

(c) Schemes of Arrangement and Amalgamation.

The Banking Companies Act provides that no court shall sanction a scheme of arrangement unless it is certified by the Reserve Bank as not being detrimental to the interests of the depositors of the banking company concerned. In the course of the year, 10 banks were inspected for the purpose of examining schemes of arrangement proposed by them.

The Banking Companies Act further gives the Reserve Bank of India authority to approve of or veto schemes of amalgamation. To facilitate and expedite the process of amalgamation, the Act was further amended during the year.

(d) *Liquidation of Banking Companies.*

The Act stipulates that in connection with the winding up of a banking company, the Reserve Bank shall, if it applies, be appointed as the official liquidator of the banking company. The Bank has during the year trained a nucleus staff for liquidation purposes.

(e) Receipt and Scrutiny of the Prescribed Returns.

Various returns which are prescribed under the Act and the Rules framed thereunder have to be submitted by the banking companies to the Reserve Bank. These returns are carefully scrutinised with a view to ensuring that the provisions of the Act and any special or general instructions issued thereunder are being complied with by banking companies, and obvious defects in the working of a bank are brought to the notice of the management.

(f) *Advising Banks and Helping them in Times of Emergencies.*

It was feared that the devaluation of the Indian rupee would give a spurt to speculative activity. Banks were, therefore, advised to restrict their advances to genuine trade requirements and not to grant any advances for speculative purposes. They were also required to submit to the Reserve Bank a daily return of all credit limits above Rs. 1 lakh sanctioned by them, and wherever, on a scrutiny of these returns, advances of an undesirable nature were detected, the banks concerned were advised to recall them.

In the course of its study of the methods of operation of banks in India, the Bank has come across instances of some unhealthy developments among which mention may be made of the tendency to grant a disproportionately large portion of their advances against security of immovable property, making of advances on inadequate securities to concerns in which the banks' directors or their friends and relations are interested, indiscriminate policy of branch expansion, interlocking of funds between banks and concerns in which their directors are interested, and attempts made by the managements of some banks to secure control over certain industrial undertakings by misuse of the banks' funds. The Bank has also noticed, in the case of some banks, a tendency to manipulate figures appearing in their published statements of accounts with the object of concealing from the public the true financial condition. Several small banks have been found to have granted loans and advances far out of proportion to their total resources. Such defects arealways brought to the notice of the managements of the banks concerned and they are directed to rectify them. It is also usual in such cases to prescribe special periodical returns from the offending banks with a view to watching the progress made by them in the desired direction.

Agricultural Credit Department

12. The Agricultural Credit Department continued to devote its attention to the study of problems relating to the co-operative movement, land mortgage banks, debt legislation and regulation of money-lending, warehousing, marketing and related matters. The Department is also making a systematic study of the position of the various co-operative financing agencies and drawing the attention of the Registrars of Co-operative Societies to undesirable tendencies, if any, observed in their working. The services of the Department were utilised increasingly by co-operative organisations, Registrars of Co-operative Societies and the Central and State Governments.

During the year, the Department published the third issue of the Review of the Co-operative Movement in India covering the period 1946 to 1948, Statistical Statements relating to the Co-operative Movement in India for 1946-47 and 1947-48, and several brochures and bulletins on different aspects of the co-operative movement.

Contact with the working of the co-operative movement was maintained by tours undertaken by the Chief Officer of the Department and also by attendance at important conferences such as the Food and Agriculture Organisation Conference on Co-operatives at

Lucknow held in October 1949 and the All-India Marketing Conference held at Bombay in April 1950. In pursuance of the Bank's policy of liberalising terms for the grant of assistance, referred to in the last Annual Report, the Department extended several concessions to the co-operative movement, one of them, for example, being the grant of reverse transfer facilities to provincial co-operative banks working in areas such as the Punjab and Orissa, where the provincial banks concerned do not have offices at the places where they maintain their principal account with the Reserve Bank of India.

Department of Research and Statistics

13. The Department of Research and Statistics continued to issue the monthly Reserve Bank of India Bulletin, which completed its third year of publication in December 1949. The annual Report on Currency and Finance for 1949-50, containing, as usual, a comprehensive survey of monetary and financial developments during the year, is under compilation and will be issued shortly. Mr. J. V. Joshi, the Economic Adviser to the Bank and the head of the Research Department, was deputed abroad in place of Dr. B. K. Madan, India's Executive Director on the International Monetary Fund, who rejoined the Bank as the Economic Adviser.

The Division of Monetary Research issued in July 1950 the Statistical Tables relating to Banks in India for the year 1948. The work in connection with the half-yearly surveys of ownership of bank deposits and investments of banks and quarterly surveys of advances of banks, referred to in the last year's Report, was undertaken during the year. The Director of the Division continued to be one of the Directors nominated by the Government of Bombay on the Board of the Bombay Bullion Association.

The Division of Statistics published during the year in the form of a booklet, the Weekly Index Numbers of Security Prices (General Purpose Series) compiled by the Division for the period January 1946 to October 1949, and have since January 1950 released weekly through the press, official index numbers of security prices which have replaced the Economic Adviser's weekly series. The available balance sheets for the year 1947 of Indian joint-stock companies other than financial concerns were analysed. The Division continued to co-operate in the work of Surveys with the Indian Statistical Institute, and, during the year, a survey into the economic conditions of middle-class families was conducted with the Bank's financial assistance. The Director of the Division was deputed to the U.S.A., Canada and the U.K. to study recent developments in statistical research. He attended the Conference of the International Association for Research in Income and Wealth held at Cambridge (England) and the International Statistical Conference held at Berne (Switzerland).

The Report on the Survey of Agricultural Indebtedness in the Murbad Taluka of the Thana District, referred to in the last year's Report, was published by the Rural Economics Division in the January 1950 issue of the Reserve Bank of India Bulletin. Another survey undertaken with a view to studying the working of the 'Grow More Food' campaign and assessing the real difficulties in the matter of increasing food production in the Murbad and Shevgaon talukas of Bombay State was completed during the year.

The Balance of Payments Division completed the work on the Census of Foreign Assets and Liabilities referred to in the last year's Report. This has provided a large volume of useful information regarding the extent of foreign participation in the different fields of industrial and business activity, and the forms which that participation has taken. During the year, the Division prepared estimates of the Indo-Pakistan balance of payments, which helped to fill an important lacuna in the data bearing on India's external accounts. The Director of the Division attended the Conferences held during the year to discuss the Indo-Pakistan Trade and Payments Agreements, represented the Bank at the India-America Conference held in New Delhi and proceeded as an adviser to the Indian Delegation to the Commonwealth Conference held at Sydney in May 1950.

Foreign Investments In India

14. It may be of interest to give here a brief summary of the results of the Census of Foreign Assets and Liabilities in regard to private foreign investments in India. Full details of the results of the enquiry will be published in due course.

(1) The market value of total private foreign investments on 30th June, 1948 was estimated at Rs. 596 crores, out of which long-term business investments accounted for Rs. 519 crores, or nearly 87 per cent. The remaining 13 per cent. represented mostly the short-term liabilities of commercial banks.

(2) The 'direct' type of investment in which control of operation is associated with ownership of capital totalled Rs. 431 crores, or nearly 83 per cent. of the business investments. These comprise—

(*a*) ordinary shares of 'controlled' Indian joint-stock companies, Rs. 145 crores,

(*b*) branches of foreign companies, Rs. 284 crores, and

(c) 'controlled' partnerships, Rs. 2 crores.

It would appear that the 'direct' type of investment, particularly in branches of foreign companies, is the dominant element in the field of foreign business investments in India.

(3) Great Britain's investments amounted to Rs. 3'76 crores of which the 'direct' investments were Rs. 322 crores or 86 per cent.

(4) The other important countries were :—

U.S.A. Rs. 30 crores, nearly all 'direct',
Pakistan Rs. 21 crores,
British West Indies Rs. 15 crores,
Switzerland Rs. 10 crores, and
Canada Rs. 9 crores.

Analysis of these figures on the basis of business activity shows that 'trading' accounted for Rs. 143 crores, 'manufacturing' Rs. 104 crores and the 'miscellaneous' group consisting of plantations, managing agency companies etc. Rs. 119 crores.

General Economic Conditions

15. The outstanding event of the year was the devaluation of the rupee by 30½ per cent. in September 1949, along with the currencies of most of the members of the sterling area and a large number of other countries in Europe, the Middle East and the Far East. Pakistan, however, decided not to devalue its rupee.

Inflation continued during the year to be the major problem confronting the economy of the country and the devaluation of the rupee only emphasized the need for immediate and concentrated efforts to control inflationary tendencies. l'he country's external accounts position having deteriorated further between January and June 1949 as compared with the previous half-year, steps had to be taken from May 1949 to correct the adverse balance. In pursuance of the decisions of the Commonwealth Finance Ministers' Conference in July 1949, India undertook to reduce hard currency expenditure to 75 per cent. of the 1948 level. In these circumstances a further intensification of the anti-inflationary efforts became imperative and a comprehensive eight-point programme was outlined in October 1949, The two main objectives of this programme were to bring about a reduction in the level of prices and an increase in the country's foreign exchange resources. Special emphasis was laid on a rapid expansion of exports and reduction in imports from hard currency areas consistently with maintenance of the flow of essential goods. Bilateral agreements were entered into for the exchange of goods with a number of countries. Steps taken for tackling the problem of the price level included a cut in the prices of controlled commodities like foodgrains, cloth, yarn, pig iron and steel, a check on speculation through the prohibition of futures trading in cotton seeds, sugar, gur and gur shakkar, and the levy of export duties on some of the articles exported mainly to hard currency areas. Other steps taken were the reduction in Governmental expenditure, the regulation of credit facilities with a view to discouraging speculative holding of stocks and attempts to augment national savings. A scheme for compulsory savings applicable to Government servants was introduced as from 1st December, 1949. The National Savings campaign was reorganised and substantial tax reliefs and other concessions to industries as well as to individuals were granted for encouraging investment.

Monetary and Credit Trends

16. Despite the various disinflationary measures taken during the year, money supply increased by Rs. 16 crores as against a fall of Rs. 137 crores in the previous year.

(In crores of Rupees)

Year July-June	Currency	Deposit Money	Total
	Increase (+) or Decrease (—)		
1948-49	-35	-102	-137
1949-50	+10	+ 6	+ 16

The increase in money supply should be mainly attributed to the favourable position in regard to balance of payments in 1949-50. The restrictive import policy applied from May 1949, the effective measures for the stimulation of exports and the devaluation of the rupee in September 1949 were the principal factors that contributed to this result. In 1948-49, there was a serious adverse balance of payments, and the net draft on the foreign exchange resources of India amounted to Rs. 227 crores, not taking into account the extra-ordinary transfers in respect of the allocation of assets to the

State Bank of Pakistan and payments to the U. K. on account of military stores and the funding of pension annuities. In contrast, in 1949-50 India's foreign exchange reserves increased by Rs. 19 crores, after allowing for the transfer of sterling of the value of Rs. 12 crores to Pakistan, mentioned earlier in the Report. There had been a large import surplus in the earlier portion of the year, but this was counterbalanced by the emergence of an export surplus during the post-devaluation period. This export surplus was probably also the principal factor behind the small rise in bank deposits during the latter half of the accounting year. The total time and demand liabilities with the scheduled banks were as follows :—

Last Friday of		Rs. Crores
June	1948	1,005
December	1948	963
June	1949	875
December	1949 . . . . ::	854
June	1950	863

That money supply has not been augmented by drawings on Government's balances or the Reserve Bank's operations on the market is clear from the fact that there was an increase in the Central Government's deposits by Rs. 12 crores and a small decrease of less than Rs. 1 crore in the holdings of rupee securities by the Reserve Bank. The comparative figures for the last three years are as follows :—

(In crores of Rupees)

	Central Government' Deposits with the Reserve Bank	Variation over previous year	Holdings of Rupee Securities by the Reserve Bank	Variation over previous year
30th June, 1948 ..	215·03		178·70	
30th June, 1949 ..	128·39		517·17	
'Transferred to Pakistan			+35·51	
Less **ad hocs created (for payments for pension annuities and surplus stores)** ..			−292·10	
		−86·64	260·58	+81·88
30th June. 1950 ..	**140.67**		528·72	
Adjustment on account of returns from Pakistan ..			−12·19	
		+12·28	516·53	−0·64

Bank credit also does not appear to have contributed to any significant extent to the increase in money supply. The net decline in scheduled bank credit over the year was Rs. 8 crores, while Reserve Bank loans and advances to Governments and 'others' also declined by Rs. 7 crores. Thus, while in 1948-49 the decrease in money supply was in the main the net result of an adverse balance of payments which was larger than the withdrawal from Government's cash balances plus the Reserve Bank's purchases of Government securities, the increase in money supply this year was mainly due to the favourable balance of payments position.

Owing to this increase and also partly to the reduced demand for funds on account of import restrictions as well as the virtual cessation of Indo-Pakistan trade during the greater part of the year, the stringency in the money market during the busy season this year was less acute than it was last year. An additional factor was the Treasury bill maturities early in the season amounting to Rs. 36 crores, the net borrowings by the Government in the shape of Treasury Deposit Receipts being only about Rs. 3 crores over the same period and about Rs. 10 crores during the year. The level of short-term rates during the year, therefore, tended to be lower than in the previous year. The call money rate among the larger banks touched its peak at 1 per cent. in April this year as against 1¼ per cent. in April last year; similarly the peak call rate among the smaller banks was 1¼ per cent. this year as compared with 1½ per cent. last year. The peak rates for short-term fixed deposits (6 months and 12 months) were about the same as last year, but during the current slack season the rates have fallen by ¼-½ per cent. from the levels in the corresponding period last year. It is also noteworthy that the rate for 12 months' fixed deposits which had remained unchanged since March 1948 at 1¾-2 per cent. fell in May this year to 1¾ per cent. and in early June to 1½-1¾ per cent.

Scheduled bank credit during the busy season this year expanded by Rs. 88 crores as against Rs. 106 crores in the previous busy season, and the peak level reached this year was also substantially lower at Rs. 486 crores as compared to Rs. 514 crores last year. This is explained partly by the factors mentioned earlier, but also by the fact that this year's busy season extended roughly from December to April, while last year's season was an unusually prolonged one from October to May. Other causes that have contributed to this result are the smoother flow of trade following the elimination of the transport bottle-necks which were common last year, the relative steadiness in bank deposits as compared to the sharp decline in the previous year, the reduced output in the two main manufacturing industries, jute and cotton, and the more cautious extension of credit by banks on the advice tendered to the scheduled banks by the Reserve Bank after devaluation that advances for speculative purposes, including the speculative holding of stocks, should be discouraged.

On a review of all the factors, it would appear that monetary and credit policy has not contributed significantly to inflationary pressure during the year, the post-devaluation trends in foreign trade being the main factor underlying the monetary expansion.

Price Trends

17. The general price index in June 1950 was 4·6 per cent. higher than in June 1949, although only 1·7 per cent. higher than the pre-devaluation level in August 1949. The rise in prices which had taken place from April 1949, was due partly to the officially permitted increases in the prices of certain controlled commodities like cloth (1st April) and steel (1st June), and partly to the restrictive import policy, mentioned earlier, and the consequent reduced flow of goods. Moreover, despite the continuance of price controls in respect of various commodities and efforts to implement the anti-inflationary programme initiated in October 1948, the Economic Adviser's general index (base : year ended August 1939=100) showed an almost continuous rise from 378·3 in June 1949 to 389·8 in September, indicating the presence of inflationary pressures in the economic situation. And after devaluation the price index reached a new peak at 393·3 in October owing mainly to the sharp rise in the domestic prices of a number of export commodities including tea, lac, pepper, oils and oilseeds.

This was followed by a temporary decline during November and December, brought about mainly by official price cuts in essential commodities like cereals, cotton yarn and cloth, pig iron and steel. A cut of 4 per cent. was enforced as from 1st November, 1949 in the maximum ex-mill prices of cloth and yarn, and of about 3 per cent. in the ex-factory price of certain grades of sugar. The retention prices of pig iron were reduced by 7 per cent. from the same date and from 12th December the statutory selling prices of all categories of iron and steel were reduced by Rs. 30 per ton. From 23rd November the prices of certain types of coal and coke were reduced, the reduction ranging from 9 annas to 15 annas per ton. In the case of foodgrains, a reduction of 3 to 15 per cent. in the issue prices was to be achieved partly through a cut in distributional and other charges, and partly through a reduction in procurement prices. As a result, the general price index dropped to 390·2 in November and 381.3 in December, the latter representing a reduction of about 3 per cent. from the October level. This improvement could not, however, be sustained during the first half of 1950, and the index for June 1950 stood at 395·6. This was due mainly to the rise in the prices of industrial raw materials by 6·6 per cent. by June as compared with the level in August, of semi-manufactures by 1·4 per cent. and of the miscellaneous group by 27·8 per cent. The position in regard to food articles which were lower by 1·9 per cent. and manufactured articles which were almost steady, contributed towards a more gradual increase in the general level of prices.

Government Finances

18. The need for curtailing expenditure with a view to balancing the budget has been emphasized in the past. The post-devaluation anti-inflationary programme envisaged a reduction of Rs. 40 crores in revenue and capital expenditure during the fiscal year 1949-50 and twice that sum in the following year. The revised estimates for 1949-50, however, show that the actual reduction is likely to be small, and the overall deficit, in respect of the revenue and capital budgets together, amounted to Rs. 124 crores as against the original estimated deficit of Rs. 134 crores. The position for 1950-51 according to the budget estimates is more encouraging. The revenue budget is more or less balanced and the overall deficit which is entirely in the capital portion of the budget has been reduced to Rs. 23 crores representing a considerable improvement over the past few years. The situation, however, demands a much bigger fiscal effort as the era of large balance of payments deficits is over.

In the budget for 1950-51 there is a reduction of Rs. 22 crores in civil expenditure, if comparable items of expenditure for 1949-50 and 1950-51 are considered. The increased provision for expenditure for the rehabilitation of refugees may, however, turn the estimated revenue surplus of Rs. 71 lakhs into a deficit, and if defence expenditure does not allow of any reduction, further economies will become necessary in civil expenditure. The reduction of the capital budget for 1950-51, it must be noted, has been achieved mainly through a reduction in grants and loans to the States.

The budgets of Part A States together for 1950-51 show a small deficit of Rs. 1·73 crores on revenue account as against the surplus of Rs. 2·47 crores in the revised estimates for 1949-50. Expenditure on capital schemes is estimated at Rs. 84 crores for 1950-51 as against Rs. 70 crores in the revised estimates for 1949-50, though

Central grants to Part A States for development have been reduced from Rs. 24 crores in the revised estimates for 1949-50 to Rs. 9½ crores in 1950-51 and loans to Part A States from Rs. 52½ crores to about Rs. 35 crores. The inflationary influence of the financial policy of Part A States is evident from the fact that while the estimated reduction in Central Government cash balances in 1950-51 is about Rs. 17·6 crores, the net estimated withdrawals from outstanding cash balances (including cash balances investment account) and post-war reconstruction balances in respect of all Part A States amount to Rs. 45 crores, and might be even larger as the loans from the Centre will be Rs. 25 crores lower than the amount budgeted for by the States.

19. The Central Government's loan operations during the year under review resulted in a net disbursement of Rs. 20 crores, while net accruals of small savings for the nine months ended March 1950 amounted to Rs. 17 crores.

Public Borrowings

In their notification dated 25th June, 1949, the Government offered the 2½ per cent. Loan, 1955 (Second Issue) and the 2¾ per cent. Loan, 1962 for public subscription from 4th July, 1949 to 8th July, 1949 (both days inclusive) at issue prices of Rs. 95-12 and Rs. 99-8 respectively, and the subscriptions were accepted only in the form of the 3 per cent. Loan, 1949-52 at par. Subscriptions amounted to Rs. 25 crores for the 2½ per cent. Loan, 1955 (Second Issue) and Rs. 7 crores for the 2¾ per cent. Loan, 1962. Allowing for the amount converted, the balance repayable was Rs. 35 crores in respect of the 3 per cent. Loan, 1949-52. A special issue of the 2½ per cent. Loan, 1955 (Third Issue) was created on 16th January, 1950 for Rs. 15 crores and made available for sale on tap. The 4½ per cent. Loan, 1950-55, the outstandings of which amounted to Rs 6·7 crores, was repaid on 15th May, 1950. On 15th June, the Government announced their decision to float on 19th June a new loan at par for Rs. 30 crores bearing interest at 3 per cent. per annum and repayable on 15th June, 1964. Subscriptions for the loan were received in the form of cash or in 2½ per cent. Bonds, 1950, and the loan was fully subscribed, Rs. 7·57 crores being in the former and Rs. 22.75 croresin the latter.

During the year, only-one State Government floated a loan in the market. The Government of Bombay in their notification dated 26th July, 1949 invited subscriptions on 1st August, 1949 for an issue of the 3 per cent. Bombay State Development Loan, 1962 for Rs. 6 crores, which was fully subscribed after a call on the underwriters.

Capital Markets

20. Indications of some improvement in the stagnant conditions of the capital markets in India were discernible towards the close of the year under review. While confidence has been returning gradually, professional activity still remains the mainstay of the market. The sharp fall in prices of British funds during May to November 1949 affected the local markets and aroused apprehensions of a similar retreat from cheap money. But on the whole, apart from temporary recessions, the gilt-edged market was steady. In January 1950, a third issue of Rs. 15 crores of the $2\frac{1}{2}$ per cent. Loan, 1955 was created mainly to satisfy institutional demand for short-term investment. In June 1950, a 3 per cent. Loan, 1964 was issued for Rs. 30 crores with conversion facilities for the maturing $2\frac{1}{2}$ per cent. Bonds, 1950. This issue was fully subscribed and marks a definite improvement on the results of the $2\frac{3}{4}$ per cent. Loan, 1962 and $2\frac{1}{2}$ per cent. Loan, 1955 issued in July, 1949, when out of a total of Rs. 67 crores outstanding in the 3 per cent. Loan, 1949-52, the conversion loans brought in only Rs. 32 crores.

In Industrials, the downward trend which began in August 1946 was halted in July 1949 when the prices reached record low levels. Since then there has been a steady recovery. This improvement reflects to some extent the general upward trend in most other countries of the world, and one of the reasons underlying it is that the recession in the United States proved to be milder and of shorter duration than had been expected. The Reserve Bank index of variable dividend industrial securities which stood at 108.7 on 2nd July, 1949 rose steadily to 117.0 at the close of June 1950. The improvement is primarily attributable to the stimulus provided by devaluation, the tax concessions, the abolition of statutory limitation on dividends announced in the Central Budget for 1950-51 and the hopes roused by the conclusion of the Minorities and Trade Agreements with Pakistan.

In this context, the role of the Industrial Finance Corporation of India in assisting the long and medium term finance requirements of industry assumed some importance, even though its scale of operations was necessarily limited. During the period under review, some assistance was also provided by the Central and State Governments directly granting loans to deserving units of industry and assisting the establishment of several new ones.

Agricultural Finance

21. In the field of agricultural finance the Reserve Bank offered additional credit facilities to accommodate co-operative banks. Until recently, advances under Section 17(2)(b) and (4)(c) were permissible in the case of these banks at the concessional rate of $1\frac{1}{2}$ per cent. below the Bank Rate. This concession has now been extended to advances under Section 17(4)(a) subject to the condition that the credit is utilised strictly for seasonal agricultural operations and the marketing of crops. Applications for credit during the year amounted to Rs. 4.82 crores as against Rs. 3.56 crores last year, while the total credit granted amounted to Rs. 2.14 crores this year as against Rs. 1.80 crores last year.

The major problem of the provision of adequate credit facilities in semi-urban and rural areas for the financing of agricultural and other developments, and the tapping of savings in these areas, was intensively considered during the year. At the suggestion of the Bank, the Government of India appointed the Rural Banking Enquiry Committee to investigate the general problem and, as an initial step, the question of the transfer of Government treasury work in taluka headquarters to the Imperial Bank or other well-established commercial or co-operative banks. The Committee's conclusions and recommendations are briefly as follows :-

(u) the Reserve Bank should extend its branches to the capitals of at least the more important States in the Union,

(b) the Imperial Bank of India should extend its branches as far as taluka or tehsil towns,

(c) other commercial'banks and co-operative banks should also be encouraged to open branches in taluka towns and smaller towns and semi-urban areas,

(d) for the villages it would be necessary to continue and expand the machinery of the postal savings banks and the co-operative societies,

(e) co-operative credit and multi-purpose societies should be strengthened and co-operative institutions should be given special attention and assistance,

(f) for short and medium-term finance for agriculture, the existing Provincial Co-operative Banks should be strengthened and their scope enlarged, and where this is not possible, State Agricultural Credit Corporations should be established,

(g) long-term finance for agriculture should be provided through separate institutions, such *as* land mortgage banks, which should be established where they do not exist, and

(h) currency chests and remittance facilities should be extended to a much wider area than at present.

The Committee has not been able to arrive at any definite conclusion about the magnitude of savings in rural areas, owing to the lack of reliable statistical data on rural incomes and the pattern of their distribution. With the increase in agricultural prices, it is likely that a larger measure of the national income has accrued to the rural sector, but a considerable proportion has probably been used for supporting a higher level of consumption and only a relatively smaller part has gone into savings. On the basis of such indirect evidence as was available to them, the Committee, however, came to the conclusion that the savings of the bigger landlords have probably increased and that the indications are that some, though relatively small, savings have also accumulated with the large number of the smaller farmers and the agricultural workers.

As regards an all-India Agricultural Finance Corporation, the Rural Banking Enquiry Committee considers the establishment of such an institution premature. The Gadgil Committee in 1946, it will be recalled, recommended the establishment of State Finance Corporations to provide all types of credit, so that they might be more suitably adapted to regional needs. This proposal did not, however, find great favour in either official or non-official circles, and the general opinion seemed to be that where the provincial banks were functioning, an agricultural credit corporation would merely duplicate machinery, lead to the disintegration of the co-operative movement and add to the cost of credit. It has been suggested that the co-operative movement, backed by the facilities which the Reserve Bank of India can offer under Section 17 of the Reserve Bank of India Act, should be able to provide financial assistance for the short-term needs of the members. The co-operative movement during the last four decades has, however, made very slow progress, particularly in the sphere of long-term finance, except in two or three States. The Committee has expressed the view that State Agricultural Credit Corporations should be established for short and medium term credit needs, where co-operative banks cannot be developed, and land mortgage banks for long-term needs.

Balance of Payments Position

22. We may turn now to review the outstanding developments in India's external accounts position. The position in this regard twelve months ago was very disturbing, with deficits with the hard currency areas, with Pakistan, the sterling area and other soft currency countries. Our dollar shortage had assumed serious dimensions and exports to the hard currency areas were definitely on the decline. The deficit in respect of hard currency areas rose from about Rs. 10 crores for the first half of 1948 to Rs. 50 crores during the corresponding period of 1949. Indian exports of jute manufactures had suffered a sharp fall, partly on account of high prices and partly on account of the recession in the U.S.A. The Government's own increased dollar expenditure on food and other stores aggravated the situation.

The position of other sterling area countries was equally serious. By the end of June 1949, the reserves of gold and dollars in the United Kingdom hadreached the very low level of $1,650 million. (They touched the lowest point at $1,320 million on 18th September, 1949). This situation demanded drastic measures and a conference of the Commonwealth Finance Ministers was held in London in July 1949 to consider necessary action. The main decision that emerged from the conference was the undertaking given by the members of the Commonwealth to reduce their expenditure on dollar purchases to 75 per cent. of its level in 1948.

The circumstances under which the United Kingdom, India and other members of the sterling area, with the important exception of Pakistan, devalued their currencies in September 1949 are well known and need not be described here. As a result of the fundamental changes in exchange relations brought about by the devaluation and the vigorous measures taken by the Government for the restriction of imports and stimulation of exports, there was a radical change in the subsequent months in regard to the balance of payments. As early as May 1949 the Government had already tightened up their import policy by restricting the number of commodities included in the lists of Open General Licences and had subsequently suspended dollar imports for a period pending a review of the import policy. After the decision of the Commonwealth Finance Ministers' Conference in July, the import of all articles was subjected to monetary ceilings, and tests of essentiality, which were particularly severe in the case of dollar goods, were applied to all imports. The purchases of foodgrains in the dollar area were also curtailed.

Devaluation had a stimulating effect on India's exports. The average value of our exports to the hard currency areas for the period October 1949 to June 1950 amounted to Rs. 13·5 crores per month as against Rs. 9·7 crores per month during October 1948 to June 1949, or an increase of nearly 40 per cent. The improvement was particularly marked in the case of jute manufactures, cotton, tea, linseed, mica, manganese ore and groundnuts. Exports to the soft currency areas also increased by nearly 30 per cent. in value, being about Rs. 28 crores per month during the period. Textile exports reached the unprecedented level of 81 million yards a month on an average during the nine months October 1949 to June 1950, and the figure for March 1950 was 127 million yards. This was the result partly of the more liberal export policy initiated by the Government and partly of the improved competitive position in relation to textiles from dollar countries on account of devaluation. The Middle East and the Far East seem to have imported Indian cloth on a very substantial scale.

In the last few months of the year a more liberal policy in regard to imports, which was rendered possible by the favourable trade balance, has been adopted in order to relieve acute shortages in certain raw materials and essential articles. Imports of American cotton (of the value of Rs. 35 crores approximately), hides and skins, non-ferrous metals, heavy chemicals and essential consumer goods such as drugs and medicines were more freely permitted.

Indo-Pakistan Payments and Exchange Problems

23. India had a deficit of Rs. 34 crores in respect of its current payments with Pakistan during the year ended 30th June, 1949 ; this position had been further accentuated by a substantial movement of capital from India to Pakistan through the banking system. In order to lessen the magnitude of the strain imposed on our balance of payments through a deficit of this order, provision was made in the Trade Agreement, renewed in June 1949, for a

relatively smaller volume of bilateral trade and a smaller deficit for India with Pakistan. The Payments Agreement, renewed on 10th September, 1949, was also modified in a few respects, the most important change being the enhancement of the limit for payment in No. 1 sterling from £7½ million to £15 million, after the initial credit of Rs. 15 crores in the currency of the debtor country. In addition, provision was made for settling balances arising from " identifiable capital transactions " between the two countries, as determined by the two Central Banks in consultation with each other, by adjustment in No. 2 sterling.

The decision of Pakistan not to devalue its currency along with the U.K. and India (and a large number of other countries) introduced a fresh complicating factor in the economic relations between the two countries. As an immediate consequence, the prices of all Pakistani products in terms of the Indian rupee would have become dearer and of Indian products in terms of the Pakistan rupee cheaper. Pakistan, however, imposed severe restrictions on the imports of several Indian products. Consequently India, which already had a sizeable deficit in her payments position with Pakistan was compelled to restrict the operation of Open General Licence No. X in regard to imports from Pakistan only to essential articles. Following Pakistan's decision, prices of raw jute in Pakistan fell. Pakistan, however, set up the Jute Board which announced a schedule of minimum prices for raw jute, which, converted into Indian rupees at Pakistan's official exchange rate, were considerably higher than the pre-devaluation prices and also the maximum prices fixed by India. Indian jute mills found it uneconomical to purchase jute from Pakistan at this price, particularly since some measure of price resistance to jute manufactures had developed even before devaluation in the hard currency markets owing to the competition from paper bags and other substitutes. Purchase of Pakistan raw jute at higher prices would have involved a permanent upward shift in the costs of jute manufactures which would have further jeopardised India's chances of retaining her foreign markets or holding the price line for domestic raw jute. The immediate imposition by the Government of price control over jute and jute manufactures, the banning of futures trading in these commodities and the efficient arrangements made by the Indian Jute Mills Association for the distribution of the available supply of jute to the mills rendered it possible for the industry to tide over a difficult situation. Another step taken to maintain the general cost structure of the jute industry was the enhancement of export duty on hessian (consigned chiefly to dollar markets) which was intended to take away from the industry the bulk of additional profits arising directly from the changed rupee-dollar rate. It may be noted that the enhanced rate of export duty did not apply to the larger portion of jute manufactures normally marketed in soft currency areas. As regards the rate of exchange, Pakistan itself was unwilling to extend support to the new rate by the sale of Indian rupees ; it, however, issued directives that the commercial banksshould operate only at the new official rate but out of their own resources of Indian rupees which the Pakistan State Bank did not undertake to replenish. As the currency and exchange rates of the non-members of the Fund are not governed by the Fund Agreement, the Reserve Bank of India allowed freedom to the scheduled banks to deal in Pakistan rupees out of their own resources. In view of the practical cessation of Indo-Pakistan trade during the months immediately following devaluation and of the restrictions on trade and exchange transactions between the two countries, India's deficit with Pakistan, for the six months ended December 1949 amounted to Rs. 9 crores, made up of a deficit of Rs. 19 crores in the pre-devaluation quarter and a surplus of Rs. 10 crores in the post-devaluation one.

Sterling Releases

24. A consequence of the improvement in the external accounts position noticed earlier has been the slow rate of utilisation of the sterling releases during the year under review. The release granted for the financial year 1949-50 differed in two respects from that of the previous year. First, there was no longer a rigid limit in regard to the convertibility of current sterling releases, but India along with other sterling area countries agreed to restrict dollar expenditure to 75 per cent. of the 1948 level. Secondly, the release included £ 50 million intended to meet our normal deficit and a special release for covering any payments which might have to be made during the year under the unexpired Open General Licences. It was understood that these payments would not exceed £ 50 million. In view of the position that has developed as a result of devaluation and the export and import policy of the Government, it will be seen that it was not necessary for India to draw on the normal release of £50 million or the special release. Under the terms of the agreement India is entitled to carry forward the normal release to the next period.

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 India.
14. *Bank of Indore.
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 National Bank.
28. Canara Bank.
29. Canara Banking Corporation.
30. Canara Industrial and Banking Syndicate.
31. Central Bank of India.
32. Chartered Bank of India. Australia and China.
33. Comilla Banking Corporation.
34. Comilla Union Bank.
35. Comptoir National D'Escompte de Paris.
36. Devkaran Nanjee Banking Co.
37. Dinajpore Bank.
38. Eastern Bank.
39. Gadodia Bank.
40. Grindlays Bank.
41. Habib Bank.
42. Hind Bank.
43. Hindustan Commercial Bank.
44. Hindusthan Mercantile Bank.
45. Hongkong and Shanghai Banking Corporation.
46. Hooghly Bank.
47. Hyderabad State Bank.
48. Imperial Bank of India.
49. Indian Bank.
50. Indian Overseas Bank.
51. Indo-Commercial Bank.
52. Indo-Mercantile Bank.
53. Jodhpur Commercial Bank.
54. Jwala Bank.
55. Karnani Industrial Bank.
56. Kumbakonam Bank.
57. Lakshmi Commercial Bank.
58. Laxmi Bank.
59. Lloyds Bank.
60. Mahaluxrni Bank.
61. Mercantile Bank of Hyderabad.
62. Mercantile Bank of India.
63. Miraj State Bank.
64. Nadar Bank.
65. Narang Bank of India.
66. Nath Bank.
67. National Bank of India.
68. National Bank of Lahore.
69. National City Bank of New York.
70. National Savings Bank.
71. Nedungadi Bank.
72. Netherlands India Commercial Bank, N.V.
73. Netherlands Trading Society.
74. New Bank of India.
75. New Citizen Bank of India.
76. Oriental Bank of Commerce.
77. Oudh Commercial Bank.
78. Palai Central Bank.
79. Prabhat Bank.
80. Pratap Bank.
81. Presidency Industrial Bank.
82. Punjab and Sind Bank.
83. Punjab Co-operative Bank.
84. Punjab National Bank.
85. *Sangli Bank.
86. Southern Bank.
87. South India Bank.
88. South Indian Bank.
89. Tanjore Permanent Bank
90. Traders' Bank.
91. Travancore Bank.
92. Travancore Forward Bank.
93. Tripura Modern Bank.
94. Union Bank of India.
95. United Commercial Bank.
96. United Industrial Bank.
97. Universal Bank of India.
98. Vysya Bank.

* Included in the Second Schedule during the year ended June 1950.

RESERVE BANK OF INDIA

Balance Sheet as at 30th June, 1950

ISSUE DEPARTMENT

LIABILITIES	Rs.	a.	p.	Rs.	a.	p.
Notes held in the Banking Department .	36,60,92,692	0	0			
Notes in circulation	11,68,52,77,048	0	0			
Total notes Issued				2,05,13,69,740	0	0
Total Liabilities Rs.				12,05,13,69,740	0	0

ASSETS	Rs.	a.	p.	Rs.	a.	p.
A. Gold Coin and Bullion :-						
(a) Held in India ..	40,01,70,843	9	5			
(b) Held outside India	*Nil*					
Foreign Securities .	6,38,15,11,573	3	2			
Total of A ..				6,78,16,82,416	12	7
B. Rupee Coin . .				55,29,82,680	1	9
Government of India Rupee Securities . .				4,71,67,04,643	1	8
Internal Bills of Exchange & other Commercial Paper				*Nil*		
Total Assets Rs.				12,05,13,69,740	0	0

Ratio of Total of A to Liabilities : 56.273 per cent.

BANKING DEPARTMENT

LIABILITIES	Rs.	a.	p.	ASSETS	Rs.	a.	p.
Capital paid up	5,00,00,000	0	0	Notes	36,60,92,692	0	0
Reserve Fund	5,00,00,000	0	0	Rupee Coin	11,33,924	0	0
Deposits :-				Subsidiary Coin	1,31,455	11	11
(a) Government—				Bills Purchased and Discounted :-			
(1) Central Government ..	1,40,67,21,866	6	3	(a) Internal	1,09,00,000	0	0
(2) Other Governments ..	15,19,59,798	10	6	(b) External	*Nil*		
(b) Banks	52,43,64,699	0	6	(c) Government Treasury Bills ..	66,68,117	13	8
(c) Others	63,57,89,238	15	7	Balances held abroad*	1,89,24,92,135	3	7
Bills Payable	3,81,18,143	6	9	Loans and Advances to Governments	93,00,000	0	0
Other Liabilities	12,13,69,869	11	10	Other Loans and Advances	10,01,11,026	1	7
				Investments	57,04,99,557	12	0
				Other Assets	2,09,94,707	8	8
Total Liabilities Rs. ..	2,97,83,23,616	3	5	Total Assets Rs. ..	2,97,83,23,616	3	5

* Includes Cash and Short-term Securities.

J. N. AHUJA,
Chief Accountant.

B. RAMA RAU,
Governor.

M. G. MEHKRI,
Deputy Governor.

N. SUNDARESAN,
Deputy Governor.

Dated the 18th July, 1950.

RESERVE BANK OF INDIA

PROFIT AND LOSS ACCOUNT

	FOR THE YEAR ENDED								
	30th June 1960			30th June 1949			30th June 1948		
INCOME	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Interest, Discount, Exchange, Commission, etc. ..	12,89,99,861	15	5	11,69,98,048	12	4	12,72,98,139	13	10
EXPENDITURE									
Establishment	1,60,97,663	13	1	1,49,81,665	14	2	1,33,46,734	12	5
Directors' and Local Board Members' fees and expenses	92,927	6	0	83,393	10	0	81,578	10	0
Auditors' fees	22,500	0	0	22,500	0	0	22,600	0	0
Rent, Taxes, Insurance, Lighting, etc.	5,08,409	6	2	4,13,299	6	7	4,47,513	1	8
Law charges	13,490	3	2	3,361	11	6	1,230	0	0
Postage and Telegraph charges	1,43,044	3	3	1,68,477	5	6	2,15,659	4	10
Remittance of Treasure	12,99,063	14	2	14,58,715	3	0	13,76,288	10	0
Stationery, etc.	3,82,630	7	7	4,47,172	8	11	3,76,200	13	4
Security Printing—(Cheque, Nate Forms, etc.) ..	60,93,624	0	0	38,57,790	3	1	29,01,517	1	11
Depreciation and Repairs to Bank's property ..	8,76,583	1	7	5,96,617	8	9	4,34,546	3	5
Agency charges	28,59,412	2	11	28,79,706	6	3	27,69,009	13	11
Contributions to staff and superannuation funds ..	68,600	0	0	76,700	0	0	74,100	0	0
Miscellaneous expenses	14,59,435	5	7	14,38,917	10	4	14,22,832	7	8
Net available balance	9,90,82,478	0	11	9,05,69,731	4	3	10,38,28,428	14	8
Total Rs. ..	12,89,99,861	1	5	11,69,98,048	12	4	12,72,98,139	13	10

PROFIT AND LOSS ACCOUNT—*continued*

	FOR THE YEAR ENDED								
	30th Jun 1950			30th June 1949			30th June 1943		
	Rs.	a.	p.	**Rs.**	a.	p.	Rs.	a.	p.
Amount set aside for payment of dividend at the rate of 3) per cent. per annum				8,75,000	0	0@	17,50,000	0	0
Amount transferred to the Reserve Fund				*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
Surplus payable to the Central Government ..	9,90,82,478	0	11	8,95,69,731	4	3	10,18,28,428	14	8
Balance carried forward ..	*Nil*			*Nil*			*Nil*		
Total Rs. ..	9,90,82,478	0	11	9,05,69,731	4	3	10,38,28,428	14	8

@ 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 1943.

RESERVE FUND ACCOUNT

	Rs.	a.	p.
By balance on 30th June 1950.	5,00,00,000	0	0
By transfer from Profit and Loss Account	*Nil*		
Total Rs. . .	5,00,00,000	0	0

J. N. AHUJA,
Chief Accountant.

B. RAMA RAU,
Governor.

M. G. MEHKRI,
Deputy Gouemor.

N. SUNDARESAN,
Deputy Governor.

Dated the 18th July, 1950.

REPORT OF THE AUDITORS

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of Indla, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as a: 39th June, 1950.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the Offices at Calcutta, Bombay and Madras and with the Returns submitted and eertified 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, 1994, 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, *Auditors.*
SASTRI & SHAH.

Dated the 18th July, 1950.