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War-Time Central Banking Operations

The nature of the inflationary process during the war was such that there was not much that monetary policy could do to counter it. In fact, it has been the experience of the world in the post-war years too that when there is a serious fiscal imbalance, the scope for and the efficacy of monetary policy is comparatively limited. During the war years, nearly all over the world the monetary instruments remained passive, this being especially true of the instrument of interest rate. The general tendency was for the pursuit of a policy of relatively low and on the whole stable interest rates. This was so in India too, although Governor Taylor was not an apostle of the cheap money doctrine; by and large, the war was financed on a 3 per cent basis, the Bank rate also remaining unchanged at this level throughout the war period (in fact, till November 1951). The instrument of open market operations was used extensively by the Bank, primarily to facilitate the Government's bond-selling operations, which it was the Bank's responsibility to conduct efficiently. Naturally the Bank was quite active in tendering advice to Government regarding the quantum, terms and timing of the borrowing operations. In those years the Reserve Bank did not possess the instrument of variable reserve ratio; nor was this quite necessary in view of the relatively low credit-deposit ratio of commercial banks, which invested the major portion of their deposit accretion in Government securities. To some extent, the Bank employed the selective credit controls (under the powers conferred by the Defence of India Rules) and also moral suasion to restrain banks from extending credit for speculative purposes in the commodities, shares and bullion markets.

In the field of exchange management, the war-time situation was on the whole a contrast to the position in the pre-war years. In the earlier period, owing to precarious sterling reserves there was considerable difficulty in meeting the Government of India's Home Charges and in maintaining the 1S. 6d. rupee-sterling ratio. During the war years, the problem was the other way round, namely, effortless and abundant accumulation of sterling, and in consequence no semblance of any problem in maintaining the ratio at IS.6d. Indeed, for a time speculation was rife that the exchange rate of the rupee might go up significantly. The efforts of the authorities were directed to using up as much of the sterling as possible by repatriating India's sterling liabilities, through voluntary as well as compulsory schemes (see Chapter 13).

Though there was not much to be done in the field of monetary policy proper, the Bank was kept busy during the war in discharging its responsibility in the field of currency management and as banker to Government. Currency management posed numerous problems. Metallic currency, especially small coins, had to be issued in considerable quantity; at the same time, economies in the consumption of the metals were achieved through such devices as issuing one rupee and two rupee notes and lowering substantially the silver content of the rupee. The Bank seems to have also handled with competence the many details relating to anti-inflationary sales of gold and silver in the years 1943-45. Further, the Bank took considerable interest in the healthy functioning of organised markets in commodities like cotton and jute, shares and bullion. Many initiatives in the matter of regulating these markets came from the Bank.

Bank's Monetary Policy Defined

In the first public utterance after the outbreak of the war, namely, at the annual general meeting of the Bank's shareholders held in February 1940, the Governor, Sir James Taylor, set out in clear terms the Bank's views with regard to monetary control during the war. After warning against oversimplification of problems, the Governor referred to the fact that the machinery of monetary control was more highly organised than in the last war and he made a case for a policy of stabIe interest rates. That is to say, he was for neither high rates nor artificial cheapening of money. It is worthwhile quoting the Governor's observations at some length:

> In this war we are fortunate in that the machinery of monetary control is more highly organized than in the last war but even this improvement in organisation carries with it dangers which must not be overlooked. People are too prone to oversimplify problems. To many monetary control means cheap money, and it is often argued both in this country and elsewhere that the better the control the cheaper it should make

> money. This of course is essentially fallacious. The business of the controlling authority, as I see it, is to do as far as possible what freely operating markets would have done for themselves if they were not being subjected to abnormal stresses beyond their control or their ability to foresee. In the absence of control these would be reflected in violent fluctuations upwards and downwards. To take money as an instance, if we left the markets to themselves there would be large rises and falls in the exchange value of the rupee and correspondingly violent fluctuations in interest rates, the banks' lending rates rising quite possibly to 7 or 8 per cent during the busy season followed by equally violent drops later. It is obviously advantageous to have machinery to control and iron out these fluctuations, and thereby give traders greater stability for their legitimate transactions. On the other hand, if one goes further and tries to use such machinery to carry out theoretical policies and do what the market if left to itself in normal circumstances would not do one is liable sooner or later to find oneself in a mess . . . . . . .Too great a reduction in the effective rate of interest must lead to drying up the investing habit in which case the only alternative is inflation, because Government must be efficiently carried on, particularly in war time, and must get its money somewhere. . . . . the controlling authority has to take all these factors into consideration. It has to keep money on an even keel so as to encourage investment and to see that speculation, though a necessary element in the market, does not go too far. It cannot proceed on the easy assumption that the better the control the cheaper it should make money. After all, no high degree of technique is required if the whole of monetary theory simply boils down to turning on the printing press.

This broad philosophy of stable interest rates was more or less adhered to both by Sir James Taylor and Sir Chintaman Deshmukh. This policy was also duly reflected in the fixation of the terms of Government borrowing.

Earlier, when the British Bank rate was temporarily put up, in August 1939, from 2 to 4 per cent, India did not follow suit, the rate remaining unchanged at 3 per cent. According to Sir Chintaman Deshmukh, Governor Taylor had some idea of raising the Bank rate ' in imitation of the action taken by the Bank of England ' but he abandoned it on the advice of the then Deputy Governor, Mr. Manilal Nanavati. Sir James was out of India when the U.K. Bank rate was put up on August 24; it appears that Sir James telegraphically advised Mr. Nanavati to put up the Bank rate but that the latter did not concur. It may be added that the U.K. Bank rate was brought back to 2 per cent in October 1939, after reduction to 3 per cent in September.

Management of Government Borrowing

The Bank's role in managing Government's borrowing may first be described. The Central Government's market borrowing operations in the war period are summarised in the following table.

(Rs.crores)

Year ended March	Gross Borrowing	Loans Redeemed	Net Borrowing
1939-40	16	20	--4
1940-41	112	19	94
1941-42	74	11	64
1942-43	104	Negligible	103
1943-44	316	15	301
1944-45	222	Negligible	222
1945-46	329	43	286
Total for 6 years 1940-46	1,157	89	1,068

The strategy of Government bond sales was varied from time to time with regard to such matters as choice between the issue of a new security and a reissue of an existing loan, maturity, issue price, timing, and decision whether the loan should be kept open for a fixed period or be on tap. Only in respect of a few loans was the amount of issue specified and subscriptions called for before a prescribed date. Many loans were tap issues which continued to be available for sale for quite some time. The nomenclature of the various loans, such as, Defence bonds, Victory loan and Development loan was also done carefully so as to have the most effective appeal to subscribers.

Broadly speaking, the war was financed with a coupon rate of 3 per cent, the issue price, in the case of longer dated loans, being gradually raised so as to come closer to an effective yield basis of 3 per cent. For instance, the yield worked out to 3.3 per cent in respect of the special issue of the 3 per cent 1963-65 (21-23 years) made in October 1942, 3.12 per cent in respect of the Funding Loan, 1966-68 (23-25 years) issued in October 1943 and 3.2 per cent in respect of the First Development Loan, 1970-75 (25-30 years) issued in April 1945; the issue prices in respect of these loans were Rs. 95, Rs. 98 and Rs. 97, respectively (see table on page 314). In the last two years, 1944-45 and 1945-46, the coupon rates were fixed below 3 per cent in respect of short and medium issues; these were two issues of the 2¾ per cent Loan, 1948-52, made in June 1944 and April 1945, two issues of the 2½ per cent Bonds, 1950, made in July and October 1945, and an issue of the 2¾ per cent Loan, 1960, made in January 1946. The loans issued comprised all the three types of maturities, namely, long, medium and short; steadily, the length of the long-dateds was increased. In the early years the Bank's preference seems to have been for medium issues, whereas Government desired to have issues of short and long maturities; the Governor felt that the market was not ripe for a long-term issue where as a short-term issue would mean making to the banks a present of higher rates. However, in the latter part of the

MARKET BORROWING OF THE GOVERNMENT OF INDIA, 1948-41 TO 1945-46

(Rs. crores)

		Original Issue Price (Rs.)	*Year of First Issue*	*Total Receipts*	*Of which Cash*
1.	3% Six-Year Defence Bonds:-				
	(a) First Series. .	100-0-0	1940-41	65	52
	(b) Second Series	100-0-0	1940-41		
2.	3% Loan, 1949-52 (Second Defence Loan)	100-0-0	1940-41	56	50
3.	Three-Year Interest-Free Bonds	50-0-0 and above	1940-41	2*	2*
4.	Rupee Counterparts (Net Investments)			219	219
5.	3% Loan, 1951-54 (Third Defence Loan)	100-0-0**	1942-43	55	55
6.	3% Loan, 1963-65	95-0-0	1942-43	55	55
7.	3% Funding Loan, 1966-68	98-0-0	1943-44	110	110
8.	3% Loan, 1953-55 (Fourth Defence Loan)	100-0-0	1943-44	115	109
9.	Five-Year Interet-Free Prize Bonds, 1949	l0 and 100	1943-44	5	5
10.	3% Victory Loan, 1957	100-0-0**	1944-45	111	111
11.	3% Second Victory Loan, 1959-61	l00-0-0**	1944-45	113	113
12.	2¾% Loan, 1948-52	99-14-0	1944-45	75	75
13.	2½% Bonds, 1950	100-0-0	1945-46	35	35
14.	3% First Development Loan, 1970-75	97-0-0	1945-46	115	96
15.	2¾% Loan, 1960	100-0-0	1945-46	26	26
	TOTAL			1,157	1,106

Note: Figures are inclusive of subscriptions from the Reserve Bank and amounts taken up by the Government of India in their Cash Balance Investment Account in respect of some loans.

* Net

** Plus accrued interest.

war period there was a distinct demand for relatively long-dated issues, largely due to speculative demand on anticipations of a substantial cheapening of money, and so these maturities were offered.

A reasonable stability in the interest rate on Government borrowing was strongly favoured by the Bank. Earlier, it was Government's desire to lower the yield basis to below 3 per cent, Thus in November 1941, while considering the loan programme for the year 1942-43, Governor Taylor suggested a reissue of the 3 per cent 1951-54 at par and a longer term loan of 3 per cent 1967-69 around Rs. 95, giving an effective yield of over 3 ⅓ per cent. However, Government were thinking in terms of a 12 year 2 ½ per cent loan at Rs. 98 and a 25 year 3 per cent loan also at Rs. 98, giving effective yields roughly of 2¾ per cent and 3⅛ per cent, respectively. The Governor doubted the advisability of such a substantial reduction in yield and he was particularly concerned about the inflationary impact of such a reduction; he preferred to go very slow in the matter of reduction of the yield even when reduction was indicated. Meanwhile, consequent on the entry of Japan into the war, there was a sharp break in Government security prices; in fact, in March 1942 Government had to fix minimum prices in terms of the authority under the Defence of India Rules. The Secretary of State was, however, impatient that Government must come out with new issues, notwithstanding the prevalent uncertainty; this annoyed the Governor a great deal. By June 1942 market conditions improved but Government did not press for a yield below 3 per cent.

In 1943, on the other hand, suggestions were made in various quarters, in view of the growing danger of inflation, that the interest rate should be raised to stimulate investment in Government bonds. But Deputy Governor Deshmukh opposed this, in the following terms, in a letter to the Finance Department, in April 1943:

> The results of attempting any enhancement of interest rates at this stage are likely to be embarrassing for those who have so far subscribed to Government loans, especially the institutional investors . . . . Apart from the fact that high interest rates increase the burden on succeeding generations, there is always the possibility of any such increase failing in its immediate effect and defeating its own purpose. As each increase in rates lowers the market price of existing Government loans by making them correspondingly less attractive, there is a risk of the market anticipating that this process will continue as the war goes on.

Nor was Mr. Deshmukh in favour of further cheapening of money. In the same letter, he remarked:

> The cogency of the arguments for a rise in the rate of interest may, however, be recognised to this extent that in present conditions it does not seem possible to proceed further in the direction of cheapening money and that Government may content themselves with aiming at the maintenance of the present level of long-term interest rates.

It is of interest to note in this context that of the issues made during the war, two did not bear any interest. One was the Three-Year Interest-Free Bonds, first issued in June 1940, obtainable in any amount above Rs. 50, which remained on tap throughout the war period, the total subscription being a paltry Rs. 3.7 crores. The other was the Five-Year Interest-Free Prize Bonds, issued from January 15, 1944. This issue should also be regarded as a failure, as it brought in only Rs. 5.30 crores. The Bank had opposed this issue, as described below.

The question of organising State lotteries for encouraging subscriptions to war loans or for other war purposes was reviewed at length in 1940 and Government came to the conclusion that on both ethical and financial grounds Government should not organise any form of State lotteries; the Secretary of State also advanced a few reasons against the proposal. He feared that lotteries would not account for more than a small portion of Government's requirements and that they might injure India's credit within and abroad. However, in 1943, suggestions were renewed for organising some kind of a State lottery; several Provincial Governments also supported this. After considering various types of lotteries, such as a straight lottery wherein the unsuccessful holders of tickets lose their whole capital, a lottery where a fraction, say, half of the cost of tickets is returned to the unsuccessful holders and finally a lottery loan or premium bonds, in which the unsuccessful holders lose only the whole or part of the interest to which his investment would normally be entitled, the last one was favoured by the officials of the Finance Department. The Finance Member supported the proposal as an experiment, on the ground that:

> We have now reached a stage at which we cannot afford to decline the use of methods, not ideally acceptable in normal times, which bid fair to make a real contribution to the problem of mopping up surplus purchasing power and save the country from the horrors of uncontrolled inflation.

The Government invited the Bank's comments; Mr. Deshmukh opposed the proposal for the following reasons:

> In the first place there is the ethical aspect of it that certain principles should not be abandoned by the State, no matter how severe the crisis calling for such abandonment, e.g., that the State should not appeal to the baser passions of the populace . . . But apart from this, if the State countenanced even a mild form of gambling, would it not be weakening its hands for dealing severely with the various forms of speculation it is endeavouring to check?
>
> There is, in my opinion, a real danger of lottery loans merely attracting money which would either be already invested in a Government security or would be intended for such investment. Now that much greater interest is being taken in Government securities, it would be impolitic to show lack of confidence in this straight investment . . .
>
> From the practical point of view, expenses will be considerable on account of printing, advertising, distribution, commission on sales, remittance of funds, etc. On account of the unfamiliarity of the rural population with bearer instruments, there will be legal claims to face as well as claims for lost and stolen bonds, and these claims will not be easy to settle.

Government, however, decided to go ahead and asked for approval of the Secretary of State, who cabled back as follows:

> My predecessors and I have also in the past been opposed to any arrangement of this character but in present circumstances welcome your proposals.

> You might also consider whether path of scheme might be smoothed by using some such title as prize loan or premium bond issue rather than word 'Lottery '.

The outcome was the issue of the Five-Year Interest-Free Prize Bonds, 1949, from January 15, 1944, in denominations of Rs. 10 and Rs. 100; the amount of prize money involved a cost of 2 per cent per annum. As already mentioned, all that was raised was Rs. 5.3 crores during the period January 1944 to March 1946.

An innovation during the war period was to give names to loans, indicating the purpose for which the loan was floated. The first war issue was called 'Defence Bonds' and the loans issued subsequently till July 1943 were called ' Defence Loans '. In July 1943 Mr. Deshmukh suggested floatation of a 3 per cent 1966-68 'Funding' loan, as the next issue. Later, in March 1944, in respect of a new loan to be floated, Governor Deshmukh recommended the nomenclature of 'Victory ', in accordance with the then stage of the war. Later, in December 1944, in connection with the issue of a new 3 per cent Loan 1970-75, the Governor suggested that it be called a 'Development' loan. These suggestions were accepted by Government.

Provincial Borrowing Operations

The Provincial Governments also raised modest sums in all the years except in 1941-42, the aggregate gross borrowings in the six-year period 1940-46 being Rs. 41 crores. The annual sums raised by the Provinces as a whole varied from about Rs. 4 crores to Rs.13 crores. As in the case of the Central Government, the borrowing was much larger in the three years 1943-46 as compared to 1940-43. Although the Provincial Governments were not, by and large, in need of loan funds, and Provincial borrowing would have affected to some extent Central borrowing, the Governor, Sir James Taylor, was keen that the Provinces must make some issues, for two reasons. In the first place, it was desirable to restrain the excessive rise in the prices of the existing loans, so that Provincial Governments might have no illusion about their being able to raise money in the post-war years on the basis of the low yields that would otherwise prevail. It was also considered desirable that the Provinces pay in advance their debt to the Centre, consolidated in terms of the Niemeyer Award,* rather than wait till 1945-46 when they were given the option to make interim payments,

* Under the Government of India Act, 1935, the inauguration of Provincial Autonomy was to be preceded by an expert inquiry into the financial position of Provinces, the special assistance required by each, and the time and mode of distributing the Provincial share of income-tax. Sir Otto Niemeyer was appointed by the Secretary of State in January 1936 to conduct this enquiry and he submitted his report in April 1936.

necessitating large issues in a single year. The Central Government and the Provincial Governments accepted the Governor's advice.

There were in all 21 issues, five each by the Punjab (Rs. 12.45 crores) and Madras (Rs. 7.30 crores), three each by Bombay (Rs.10 .44 crores), U.P. (Rs. 7 crores) and C.P. and Berar (Rs. 1.54 crores), and one each by Sind (Rs. 2 crores) and Assam (Rs. 0.5 crore). On Governor's advice, from 1940-41 onwards, unlike in the previous years, a simultaneous issue was made by the borrowing Provinces, with the same maturity and coupon rate (which remained unchanged at 3 per cent), the issue price, however, varying slightly from Province to Province. But, broadly speaking, the price of successive issues was stepped up, reaching par for one Province in 1943-44 and three Provinces in 1944-45. The loans were all medium-dated ones, the maturity varying from 12 to 15 years.

For the Provincial loan issues, the underwriting system, introduced for the first time in 1938, was followed throughout the war period. Some issues had to be underwritten by the Reserve Bank. Of the 21 issues, 17 were not fully subscribed, and the underwriters including the Reserve Bank, had to take up about a third of the amount of the issues in the aggregate.

The underwriting system and the Bank's role therein came in for a great deal of criticism, particularly in 1944, following very poor response to the loan issues, necessitating substantial contribution by the underwriters. The Indian Finance, for example, commented as follows, in its issue of August 19, 1944:

> It is obvious that the Reserve Bank authorities have not been taking any special steps to prepare the ground for Provincial loans . . . . In the first place, the Reserve Bank might have argued that, as the total amount involved in all the Provincial loans was only a few crores, it would not be in accordance with a sense of proportion if elaborate steps by way of preparing the market were undertaken. In the second place, the Reserve Bank might feel that, having arranged for the underwriting of the loans, its responsibility was finished. If the loans were not fully subscribed, it was the funeral of the underwriters; why should the Reserve Bank be unduly concerned about it ? . . . . . . the responsibility of the Reserve Bank cannot be said to end with the conclusion of the underwriting agreement. As bankers to the Provincial Governments, it is the duty of the Reserve Bank to maintain the status of the Provincial Governments in the esteem of the underwriters.

The Bank's view was that the underwriters had made the mistake of quoting higher rates than were justified; if only the Bank had persuaded them to quote lower issue prices (that is, the yields made higher), the loans would have been described as a 'success '. However, the Bank reviewed the system and put forward some proposals in January 1945 for eliminating the defects of the system. The essence of the Bank's proposals was to reduce drastically the list of underwriters to three large banks and six well-established firms of brokers. The terms of issue were to be fixed by a conference of underwriters convened by the Governor every year. The Bank recognised that this entailed on its part a certain amount of responsibility by way of direction in the determination of the rates for underwriting tenders, but the Bank was confident of doing this to the best advantage of the Provincial Governments, though all the Provinces would not be able to secure the same rate. As there was strong opposition from a few Provincial Governments to the proposal for drastic reduction in the number of underwriters, the Bank submitted a modified proposal in March 1945, limiting the list to those banks and brokers who had supported the Provincial loans in the past, with say a maximum of 20 names. This meant that banks and brokers already in the list, who had not shown any interest in the Provincial loans till then, were to be removed from the list. This was agreed to by the Provincial Governments, and accordingly, eight banks were removed from the list in June 1945.

Bank's Open Market Operations

During the war years, the Bank's open market operations became an integral part of the Bank's debt management operations, to maintain stability of Government security prices and help obtain maximum contribution to the various loan issues. The Bank provided substantial facilities to investors for switch operations. During periods of loss of confidence, on account of unfavourable war news in the early years, the Bank provided substantial support, besides arranging for the fixation of minimum prices.

The Bank's open market operations were on a modest scale in the first three years or so after the outbreak of the war, but from 1942-43 (July-June) onwards, they assumed substantial dimensions. In 1940-41, the purchases and sales amounted to Rs. 5.64 crores and Rs. 7.34 crores, respectively; in 1944-45, these went up to Rs. 66.08 crores and Rs. 61.06 crores, respectively. The Bank was on the whole a net buyer to the extent of over Rs. 20 crores during the 5½ year period January 1940 to June 1945. It operated in all the maturities, while concentrating on issues that were either due to mature or were close to the maturity of loans that were in the process of being issued. The Bank's operations were integrated with those of transactions in the Government's Cash Balance Investment Account. Including securities acquired otherwise than through the market, the Reserve Bank's holdings of Government securities increased by about Rs. 62 crores in the six-year period 1940-46; this should be regarded as modest in relation to the net increase in the Central Government funded debt of about Rs. 1,050 crores. The net increase in the holdings of other categories of investors like commercial banks was as under:

(Rs. Crores)

	Total Debt	Holdings of Central Govt	State Govt	Reserve Bank	Commerical &Co-operation Bank	Indian Insurance Companies	Others
As on 31-3-1946	1,499	55	54	92	447	88	764
As on 31-3-1940	451	26	2	30	74	37	282
Increase during 1940-46	1,048	29	52	62	373	51	482

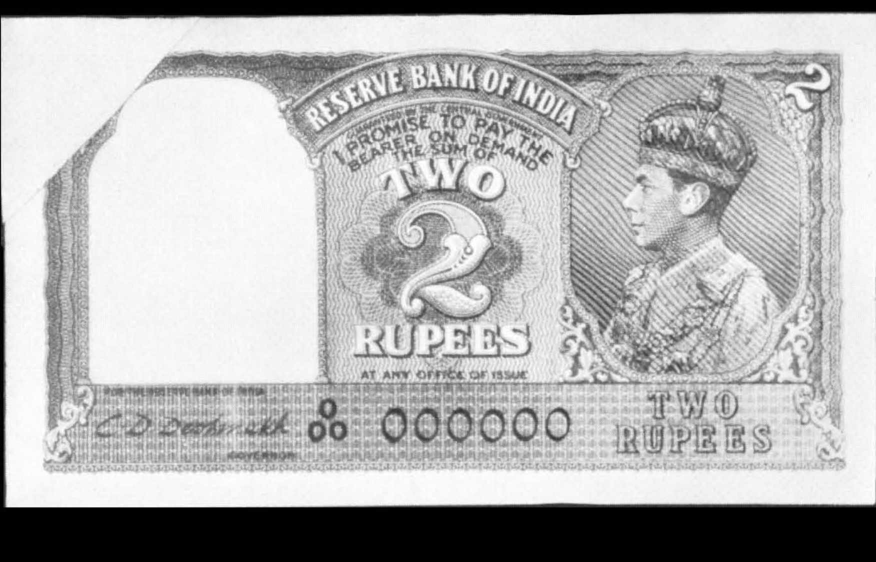
In other words, the contribution from sources other than banks, the Reserve Bank and Governments themselves, to the Government's borrowing programme, was Rs. 533 crores, or a little over 50 per cent of the net loan receipts. This was not unsatisfactory, considering that commercial bank subscription to Government loans could be inflationary and that such subscription by the central bank is invariably so.

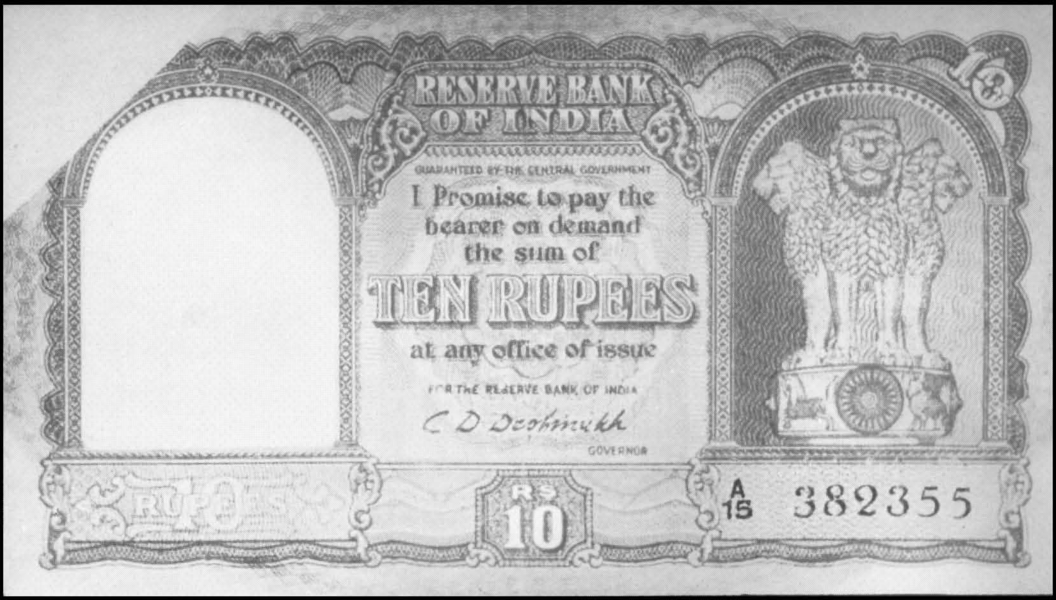
Substantial support to the borrowing programme came from the princely States. Although the marked increase in the liquidity of the economy was a major factor in attracting subscriptions from non-banking sources, the results were in part due to employing Government machinery to put pressure on people to subscribe to Government loans. Many of these subscribers turned out to be weak holders, who gave instructions to their bankers (who had often obliged with a loan for the purpose) to sell the securities at an agreed loss shortly after floatation, a phenomenon in evidence in the 1950s and 1960s too, especially in respect of State Government issues. A few big industrialists and businessmen made large subscriptions of some crores, with a lot of publicity, and subsequently disposed them of at a modest loss, which was regarded as well incurred, since the large initial subscriptions were trusted to bring their own reward in prestige or Government favour in some shape or the other!

Before leaving the subject of Government borrowing, a reference may be made to the Bank's efforts to ensure the safety of Government securities held by the public, this no doubt being regarded as of indirect assistance in popularizing Government loans as a form of investment. In February 1942, the Bank issued a notice drawing the attention of the public to the advantages of holding Government securities in the form of stock certificates rather than promissory notes. The Bank

Rs. 10,000 *First issued under Governor Taylor's signature in June 1938. Actual size of note 8" x* ***5"****. On the reverse, three oval framer, the middle one showing the value in eight Indian languages.*

Rs. 2 *First issued in February 1943; Deshmukh series first issued in March 1944. Size, 4 1/2" x 2 1/2". On the reverse appears an oval frame containing a guilloche overprinted with the value.*





Rs. 10 *Series with Asoka Pillar, emblem of indepmdent India, issued under Governor Deshmukh's signature in 1949. 5 3/4" × 3 1/4" in size, on the reverse is a picture of a sailing boat.*

Rs. **100** *First Deshmukh series issued in May 1944. Three panels on both sides. The picture in the middle is of a tiger's head. Actual size, 6 3/4" × 4 1/4".*

continued to offer to convert promissory notes into stock certificates free of charge. An additional inducement which the Bank offered was to reconvert stock certificates into promissory notes, without levying the usual fee. Further, the facility of holding Government securities in Public Debt Offices of the Bank in the form of a special ledger account, known as the Subsidiary General Ledger Account, was extended to institutional holders such as the scheduled banks, provincial co-operative banks and insurance companies.

Treasury Bill Operations and Policies

Unlike in the pre-war days, the Treasury bill issues were not governed by any consideration of inducing inflow of foreign funds. The offer of these bills was governed largely by the requirements of the Government in earlier years and later by the need to provide the banking system with a short-term liquid asset. Partly for the latter reason, the Bank did not favour any substantial issue of short-dated Government bonds.

Till about the middle of 1942 there was no marked resort to borrowing on Treasury bills, by the Government of India. The weekly offer of the bills for tender generally did not exceed Rs. 2 crores and the amount of outstanding bills with the public (that is, holders other than the Reserve Bank and Government) was in the range of Rs. 20 to 40 crores. Subsequently there was a substantial increase, the weekly tender going up to Rs. 10 crores in November-December 1942. In 1943-44 also, in the majority of weeks, the weekly tender remained at Rs. 8 crores. The outstanding amount with the public rose to almost Rs. 140 crores by the middle of 1943. Apparently, the surplus funds of banks were invested in these bills, pending subscription to market loans. By March 1946, outstandings with the public came down to about Rs. 30 crores. The Provincial Governments steadily increased their investments in these bills; their holdings, which stood at about Rs. 12 crores at the end of 1939-40, rose to about Rs. 46 crores by the end of 1945-46. Ad hoc bills were issued to the Reserve Bank from time to time, mainly in connection with the temporary financing of the repatriation of sterling debt. Since the Government's receipts through rupee loans did not always coincide with the repatriation of sterling loans, temporary resort to ad hoc bills became necessary to replace sterling securities held in the Issue Department of the Reserve Bank. There were sharp fluctuations in the volume of Treasury bills held in the Issue Department; for instance, in 1941-42, the weekly holdings ranged from Rs. 7 crores to Rs. 103 crores, in 1942-43 from Rs. 53 crores to Rs. 142 crores, and in the first nine months of 1943-44 from Rs. 2 crores to Rs. 102 crores. From January 1944 till the end of 1945-46, they remained unchanged at Rs. 5.7 crores.

Provincial Governments also had resort to Treasury bills; the borrowing under this head was stepped up substantially from 1943-44 onwards. From Rs. 1 crore or below at the end of the first three fiscal years (1940-43), outstanding Provincial bills rose to Rs. 17 crores at the end of 1943-44; there was later a decline, the figure at the end of 1945-46 being Rs. 11 crores.

As in the pre-war years, the Imperial Bank was the largest tenderer at the Treasury bill auctions, this being done in close consultation with the Reserve Bank, both as regards the quantum of tender and the price. The Reserve Bank was, of course, keen that interest in the Treasury bills should be more widespread. For this purpose, the terms on which the Bank was prepared to discount Treasury bills were liberalised. It will be recalled that in early February 1938, the Bank had agreed to discount Central Government Treasury bills for the Imperial Bank at the average rate of the last preceding auction. A few days later, the discounting facility was extended to other scheduled banks, but the rates were to be ascertained by them from the Bank. In April 1938, the discount rate was fixed at the average rate of allotment at the previous week's tender plus 2 annas per cent and rounded off to the next anna above; in addition, a minimum interest of one anna per cent actual was to apply, i.e., the price paid for any bill was not to exceed Rs. 99-15-0 per cent. Except for about two months or so from the close of August 1939 (when the discount rate was the same as the Bank rate), this rate was generally operative till about the middle of 1940; later, for a period of about 2½ years, the discount rate was kept lower, at the previous week's allotment rate rounded off to the next anna above, subject to the proviso that the minimum interest received was I anna per cent actual. Thereafter, that is to say, from 1943 onwards, the rate was I anna above the previous week's allotment rate, rounded off to the next anna above; the minimum interest received was to be 1 anna per cent actual.

It was mentioned in Chapter 5 that the Bank's rate of discount for Provincial Treasury bills was higher than the rate at which Central bills were discounted. These rates were halved in November 1939 to 2 annas and 4 annas over the rates of discount on Treasury bills of the Central Government, respectively for bills maturing within 28 days and those maturing within three months. The Provincial Governments, however, were not satisfied and insisted that the Bank should discount their Treasury bills on the same basis as the bills of the Central Government in order that the Treasury bill rate for Provinces might come down. There was also pressure from the Provincial Governments that the Reserve Bank must so arrange things that the tender rate for their Treasury bills should not be materially different from the rate on the Central bills.

In April 1940, the Bank addressed a long communication to the Provincial Governments, explaining the reasons for the higher rates of discount on Provincial bills and making some general observations on the subject of Provincial ways and means advances from the Bank. The Bank stated that the primary cause for the disparity in the rates was not the misconception about the credit of the borrowing Province. The whole question was one of liquidity; there was very little interest in these bills in the money market. Analysing the tenders accepted for the Provincial bills for about two years from April 1938, the Bank noted that only 12 per cent of the Provincial bills had been taken up by parties other than the Imperial Bank and the Reserve Bank, whereas in the case of Central bills this percentage was 44.5. If the discount rates for Central and Provincial bills were identical, even this measure of outside support would disappear, the Bank observed. It might not always be possible for the Imperial Bank to carry the burden and at times the Reserve Bank might have to be almost the sole lender. The Bank was not prepared to accept this position 'not only because it would virtually abolish the distinction between ways and means advances by the Bank and lending on Treasury bills but also because it would be unsound central banking'.

The Bank went on to explain that the distaste for Provincial bills was based on genuine banking considerations. In the busy season there would be difficulty of obtaining renewals of Treasury bills, with the result that bills might have to be taken up almost entirely by the Reserve Bank or discounted by it. Even if the market was prepared to put up the money, it would only do so at rates which were competitive with the rates obtainable from other short-term investment. While this fact of the market being unable to carry its bills during the busy season made the bills a useful means of control as it forced the market into the hands of the central banking authority, clearly this advantage could only be secured by the best form of security of this type, namely, the Central Government bills. 'Similar issues by other authorities are not so suitable as a regulator for short-term money rates unless the Reserve Bank was prepared to treat them all on the same footing, which would run directly counter to its policy of making the market the judge of the financial standing of each Province'.

With a view to widening the interest of the investing public in Provincial Treasury bills, the Bank advised Provincial Governments to restrict their Treasury bill issues to the minimum, and to take such steps as would convince the public that their finances were managed correctly and on sound lines. Provincial Governments were also urged to build up adequate working balances by either funding loans or accumulating revenue surpluses. According to the Bank, such action on he part of Provincial Governments would result in an improvement in rates for their limited Treasury bill issues and such an improvement would be 'far more desirable and durable than any arbitrary lowering of rates attempted by the Reserve Bank'.

One of the Provincial Governments urged that in order to reduce the disparity in the tender rate for Treasury bills and to improve the liquidity of Provincial bills, the Reserve Bank should (a) tender at a rate not more than half an anna per cent over the rate at which it would be prepared to tender for Central Government Treasury bills in the same week, and (b) rediscount Provincial Treasury bills on the same basis as Central Government bills. The Bank, in its letter dated August 9,1940 to Provincial Governments, consented to give the two suggestions a trial subject to two conditions, viz., (i) if Provinces fell short in their ways and means and had to borrow over the year end, they should be prepared to pay the rates imposed by the market, and should not look to the Bank for assistance and (ii) if, within a reasonable time, the market failed to react to the lower rates and the discount facilities, the Bank would have the right to modify the rates upwards. As regards the rate for discounting Provincial bills, the Bank offered a slightly modified formula, namely, the average rate for the last Provincial Treasury bills issue, rounded off to the next anna above or at 2 annas above the average rate of discount on Central bills, rounded off to the next anna above, whichever was more favourable to the party. Some years later, that is to say, in March 1944, in response to further criticisms, the Bank went a step further and reduced the discount spread over the rate on Central bills to I anna. In other words, the rate for discounting Provincial bills was made identical with that for Central bills.

Over the years, there was a lowering of the spread in the tender rates between the Central and Provincial bills, in absolute terms, of annas and pies. However, since the tender rates themselves declined substantially from 1940-41 onwards, it would seem that there was no substantial narrowing of the spread, percentagewise. Thus, in the year 1988, the spread was around 4 annas, with the Central rates around Rs. 1-8-0 per cent. In 1945, the spread was mostly in the range of 1 to 2 annas, with the Central tender rates in the range of 4 to 9 annas per cent.

Policy Regarding Ways and Means Advances

From the outset, the Reserve Bank was keen that its ways and means advances to Government, in terms of Section 17(5) of the Act, should be strictly short-term and that nothing should be done to violate the spirit of this provision by automatic renewals of any advance, after three months. Sir James Taylor had put this to the Central Finance

Department in strong terms, as early as October 1938. This matter formed the subject of a dispute between the India Office on the one hand and the Finance Department and the Reserve Bank on the other in 1942 and is worth alluding to.

The Section empowered the Bank to make ways and means advances to Governments 'repayable in each case not later than three months from the date of the making of the advance 'The Bank interpreted it as 'requiring the liquidation of the ways and means position within a period of three months'. It happened that the three months' limit in respect of over Rs. 1 crore of Burma Government's ways and means outstanding was due to expire on September 30,1942, and the Government of India drew the Secretary of State's attention to it on September 25, 1942. As there was not enough time on hand, the India Office wanted the advance to be renewed to get over ' technical obstacles of three months limit ', but in the Bank's view, ' technical obstacles' would not be overcome by renewal of amounts overdue. India Office was not convinced. According to India Office, while Section 17(5) prohibited the making of an advance repayable at a date more than three months ahead, it did not debar the Bank from making subsequent advances, from the proceeds of which the borrowing authority could discharge the earlier advance, 'so that the Reserve Bank would be in a position in appropriate cases, in effect, to renew advances from time to time.' The Bank, however, remained firm. In his letter dated November 16, 1942, to the Finance Department, Deputy Governor Deshtnukh said:

> We have always construed the provision in question as requiring the liquidation of the ways and means position within a period of three months. In effect, in our view, the accommodation is not intended to be so much a series of ways and means advances as an overdraft, which must be cleared within three months, as is the practice of the Imperial Bank in regard to overdrafts. The contrary interpretation would render the provision entirely futile, since once the principle of renewal is conceded, there could be no end to the process so far as the legal position is concerned, and this must defeat the object of the provision. Our view is supported by the history of this clause and the observations relating to it contained in the Report of the Joint Committee on the Reserve Bank Bill, and the substitution of the present provision for the one in the draft bill, requiring liquidation 'not later than 3 months after the close of the financial year in respect of which the advance has been made' would have been pointless had the new clause not been intended in the sense which we attach to it. We have always acted on this interpretation. . . .

The Finance Department consulted the Legislative Department, which, however, took the view that from strictly legal point of view India Office's interpretation was correct and that the sole relevant effect of

Section 17(5) was, in Mr. Baxter's (of India Office) words 'to prohibit the making of advances which at the time when they are made are repayable on a date more than three months ahead'. The Department, however, remarked that 'the observations of the Select Committee doubtless merit consideration by the Bank in determining its policy in regard to the grant or refusal of in effect renewals; but they have no bearing on the interpretation of the clause '.

The Legislative Department's view was brought to the notice of the Bank. Sir James Taylor in a noting to the Finance Department reiterated the Bank's policy:

> The matter is, however, as they point out, entirely within our discretion, and we have taken the views of the Joint Select Committee* as a clear directive to us as the policy which we should follow . . . . There can, however, be no doubt as to the policy, and it is one which we would not be prepared to infringe as we consider that one of the essential duties laid upon us by the Legislature is to ensure that when Government is in debt, that debt unless of a purely temporary nature, is put upon the market to be assessed by it.

Sir James also mentioned that in the Agreement the Bank had made with Provincial Governments, it was clearly stated that 'these are to be regarded as overdrafts which must be fully paid off at intervals not exceeding three months'.

A procedural matter in regard to ways and means might also be mentioned. To meet the problem of delays in telegraphic communications, the Bank suggested to the Central Government in January 1942 to give it authority to make ways and means advances to them to prevent their balances from falling below the required minimum. The advances were to be repaid, as and when possible, subject to confirmation by Government. The Bank already had a similar arrangement with a Provincial Government and it had worked well. The Government of India gave their concurrence to the proposal. Similar facility was later extended by the Bank to all Provincial Governments.

Pattern of Money Rates

At this stage it would be useful to indicate the trend of interest rates in the war period. The objective of the authorities to have a fairly stable pattern of rates was largely achieved in the case of gilt-edged securities. The monthly average yield of the 3½ per cent Rupee Paper, the most active security, moved within very narrow limits, except during short periods in the early years of the war, when the news was

* The Joint Select Committee considered that normally such advances should be converted into Treasury bills, as soon as possible, which should be offered on the open market even though the Reserve Bank might take them up.

adverse to the Allies. As compared to the yield of 3.6 per cent in June 1939, the yield went up above 4 per cent for a short while in the first few months after the declaration of war; thereafter there was a gentle decline to 3.4 per cent about the time the war ended.

The money market remained easy practically throughout the war period with substantial expansion of money supply and modest demand for bank credit. The most sensitive of the money market rates, namely, the inter-bank call rate, which moved in the range of ¼ to 2 ¾ per cent in the year prior to the outbreak of the war, spurted for a while and then recorded a declining trend. From about the middle of 1942 onwards the rate remained practically unchanged at ¼ per cent during the rest of the war period. Likewise, the Central Government Treasury bill rate, which was around 1 per cent prior to the war, initially spurted to 1.9 to 2.8 per cent but later recorded a more or less continuous decline to ¼ to ½ per cent at the close of the war.

Currency and Coinage Problems

The phenomenal expansion of currency during the war and the very marked increase in demand for silver rupees and small coin posed several problems for the Bank and the Government. Steps had to be taken to procure supplies of paper and the required metals for the issue of currency notes and coinage, while discouraging at the same time hoarding, especially of small coin. Naturally, available currency notes had to be put to the maximum use, relaxing the usual standards with regard to their retirement from circulation. Besides the issue of one rupee notes, a new denomination of currency notes, namely Rs. 2, was introduced to relieve the growing demand for rupee coin, including the Government of India one rupee notes. Special problems were also posed in regard to the circulation of Burma notes. In these matters, as in many others, the main initiative came from the Governor of the Bank and there was general support to his proposals from the Government of India and the India Office.

The pace and pattern of war-time expansion of currency is given in the table on page 328. On the outbreak of the war, Currency Officers were directed to resort to reissue of serviceable notes on an extensive scale and to ensure that the Imperial Bank and the Treasuries did not return notes which were fit for reissue. Later, with a view to effecting utmost economy in the consumption of note forms, the usual standards of worthiness for circulation of currency notes were further relaxed by laying down that they were to be withheld from circulation only in the event of being too dirty or torn as to be unfit for reissue. Besides, practices such as stamping of notes, particularly by Railways and Government Departments, and recording of names by note examiners,

(Rs.crores)

Period (September to August)	Notes	Rupee Coin*	Small Coin*	Total
1939-40	53	53	5	110
1940-41	45	-4	4	45
1941-42	226	12	7	245
1942-43	280	55	15	350
1943-44	172	16	21	210
1944-45	212	10	17	239
TOTAL	989	142	68	1,199

* Rupee coin includes one rupee notes. The data in respect of notes and rupee coin up to March 1942 and of small coin up to January 1942 are inclusive of Burma.

** Coins below the denomination of a rupee. Prior to the introduction of decimal currency in April 1957, the rupee was divided into sixteen annas; an anna was further divided into four pice or twelve pies. Besides these denominations, two anna coins were also in circulation.

were sought to be eliminated to prevent avoidable spoliation of currency. Simultaneously, arrangements were made through India Office to procure necessary supplies of note paper for building up enhanced reserves. The possibility of an interruption in the supply line from the U.K. also made the Bank explore for some time the question of manufacturing note paper in India-the Deputy Governor, Mr. Nanavati, took much interest in this matter -although eventually it was given up as the situation never turned out to be so pressing.

While every precaution was taken for ensuring adequacy of note paper, in 1942-43 the situation was critical. During this acute phase, with a view to further economising the use of note paper, the Bank gave consideration to the issue of notes in the denomination of Rs. 20 which had earlier been made in 1862, but it was dropped on account of the practical difficulties of the Security Press in handling too many denominations. From the end of 1943 the paper position began to show gradual improvement. The only new denomination of currency issued was that of Rs. 2. The authorities first considered a revival of the Rs. 2½ note issued during the First World War but decided against it, since the denomination had proved unpopular. Instead, a new denomination of Rs. 2 note was decided upon and the initial issue was made on February 1, 1943, Ten rupee note of a new design was also issued from October 1944 to prevent forgery, on account of the appearance of forged notes on a large scale.

The position in regard to rupee coin was that minting of standard silver rupees had been suspended since 1923 and there had been a substantial return of rupee coins from circulation in the pre-war years. On the eve of the war, the Issue Department had stocks of about Rs. 76 crores and Government of over Rs. 40 crores in coin and bullion. This cushion of reserves appeared to be comfortable. However, the absorption of rupee coin was quite rapid, amounting to as much as Rs. 53 crores in the first year of the war. The main objectives of official policy in regard to rupee coinage, on the eve of the war, were to conserve supplies of silver and to prevent the tendency for the disappearance of coin from circulation whenever silver prices rose to the point where melting became profitable. Immediately on the outbreak of war Sir James Taylor wrote to Government: 'we ought to see whether we cannot take the opportunity of the war to liberate the Indian currency system as far as possible from the incubus of silver, a metal which does not seem to have any future before it'! Accordingly, the proposal was on the anvil to replace the existing silver coinage by one of lower silver content and, in fact, experiments were being conducted by the mints for production of rupee coin in quaternary* alloy with the security edge to prevent counterfeiting, which was widespread.

Meanwhile, the Government took some interim steps such as promulgation, on June 25, 1940, of a rule under the Defence of India Act, making it an offence to acquire coins in excess of personal or business requirements, under which the Reserve Bank set limits up to which rupee coin could ordinarily be issued. The limits varied from Rs. 50 for an individual to Rs. 300 to Rs. 500 for a business firm. It is hard to say if this was at all effective. To tide over the immediate crisis, about one crore of standard silver coins of the 1938 George VI pattern were also minted since there was delay in the arrival from London of the one rupee notes for Rs. 25 crores, which had been printed as far back as 1935!† This consignment reached Bombay on July 22, 1940 and on July 24 a Currency Ordinance was issued providing for the issue and putting into circulation with immediate effect of Government of India one rupee notes which were to be deemed to be included in the expression ' rupee coin ' for all the purposes of the Reserve Bank Act. The introduction of one rupee notes, which proved popular, helped ease the situation to a considerable extent. Meanwhile, the mint was able to overcome the technical difficulties of issuing quaternary coins with the security device. By the end of November 1940, a sufficient quantity of these coins had been minted and consequently on December 23, 1940, the Indian Coinage (Third Amendment) Ordinance was promulgated, reducing, with immediate effect, the fineness of the whole rupee coin from eleven-twelfths of fine silver to one half of fine silver.

* So called because the coin was to consist of four alloys, namely, silver, copper, nickel and zinc. The proportions in which these metals came to be used in the new rupee coin were 50, 40, 5 and 5, respectively.

† These notes were printed as part of the measures designed to deal with the situation arising from the aggressive purchases of silver by the U.S. Government, in pursuance of the Silver Purchase Act of 1934, threatening to disrupt the Indian currency system by raising silver prices to the point of melting and export of silver rupees.

These coins were issued in December 1940 and simultaneously infractions were given that save in exceptional circumstances, no standard silver rupee should be issued to the public.

Incidentally, in some parts of the country there was some unwillingness to accept the new coins on account of the nomenclature quaternary rupees. So, the Governor gave instructions that the new coins should be described merely as the new rupee coin. Some of the Directors of the Central Board were unhappy that the Board had not been consulted in the matter of the new rupee coin, even informally.

New issues of one rupee notes, with the effigy of King George VI, were also put into circulation from July 1941. Gradually the various issues of standard silver rupees and other subsidiary coins were demonetised. This process began on April 1, 1941 and was completed by November 1943. It may be mentioned here that Government also considered and rejected during the period of stress in 1940 the alternatives of producing a nickel rupee, a cupro-nickel rupee and an Indian dollar of the value of two and a half rupees.

The difficulties were most acute in respect of small coinage, for the demand for small change was unprecedented. In March 1940, the fineness of the four anna coin was reduced from eleven-twelfths of fine silver to one half of fine silver; in July 1940; this was extended to the eight anna pieces also. In due course, the protective device of the milled edge with a shallow grove was incorporated in these coins also, to prevent counterfeiting.

On account of the urgent need to conserve nickel for war purposes, the nickel content of subsidiary coins was reduced by the use of a nickel-brass alloy with a nominal nickel content in respect of the two anna, one anna and half anna coins; the last one was introduced in January 1942, mainly in the hope of minimising the use of the pice (that is, one quarter anna). But this expectation was belied, for the price of copper kept going up and with it the demand for pice, which went into the melting pot. To meet this situation, a new pice with a circular hole in the centre and with considerably reduced metallic content began to be issued from February 1943. Some attempts were made to discredit this coin by putting it to non-currency uses, in particular, as a washer and one of the Directors also drew the Bank's attention to this fact. Deputy Governor Deshmukh in his reply said:

> I have seen the new pice fitted to a cycle as a washer for a nut, but I do not think that need disturb us unduly not many people would be foolish enough to pay seven to twelve annas a dozen for coins which they should have no difficulty in obtaining from us at their face value. In view of our intention to go on issuing the coin it does not seem worth while making any statement to the press. I expect people will soon realise that the issue of the coin has not been stopped.

The supplies of small coin were considerably enhanced by the introduction of night shifts in the mints at Bombay and Calcutta and the setting up of a third mint at Lahore, which started production in October 1943. To meet the demand for the pice coin, the surplus capacity of the South African mint was availed of for obtaining a supply of 60 million pieces. On the whole, these measures led to a very substantial improvement in the small coin situation by 1944. Besides augmenting the supplies of small coins, some measures were taken to discourage unreasonable demand for these coins. Rules were issued, under the Defence of India Act, penalising acquisition of small coins in excess of genuine requirements, though here again it is hard to say how effective the regulations were. Mention may also be made of the introduction by certain institutions like the B. E. S. T. in Bombay and the Calcutta Tramways, of the practice of issuing their own coupons in lieu of the various denominations of small coins, thereby helping ease the position to some extent.

Exchange Management

Exchange management during the war was relatively simple as the Bank was faced with a surfeit of sterling. In fact, there was, at one time in the middle of x941, speculation that there would be a rise in the rupee-sterling ratio. Besides the sterling receipts from the British Government on account of the war expenditure, the Bank made large purchases of sterling from the scheduled banks throughout the war period, reflecting the substantial favourable balance of trade that the country enjoyed.

As mentioned earlier, the Bank had discontinued the system of purchase by tender in May 1939 owing to the weakening of the exchange. The position improved in August but subsequent purchases came to be made at rates declared by the Bank, rather than by tender, on account of the availability of sterling freely. The spot buying rate for sterling remained almost unchanged at 1S. 6d. from November 1939 onwards.

As regards sales of sterling, which were small and intermittent, the Bank came to the assistance of the exchange market whenever it was temporarily in difficulties owing to a large remittance demand or a shortage of export bills on account of lack of shipping. For instance, in March 1941, the Bank undertook to sell ready sterling at 1S.5 31/32d. to ease the stringency in the market. Again, in October 1944, when an imbalance developed in the market due to a paucity of ready sterling required by importers on the one hand and a large supply of forward sterling from exporters on the other, the Bank came forward to sell limited amounts of sterling for ready delivery at 1S.5 63/64d. The imbalance was further aggravated by the higher interest rates obtainable on Treasury bills in London which led banks with large rupee funds to transfer them to London and to cover forward with the Reserve Bank. Since the imbalance was expected to continue for some time owing to the increasing imports, the Bank began to sell ready sterling without limit at 1S. 5 63/64d. with effect from April 25, 1945.

To assist exporters, the Bank commenced purchasing forward sterling from the scheduled banks in October 1939. Initially, the forward rate varied according to the length of delivery; in February 1940, the rate was fixed at 1S. 6d. for delivery up to six months forward. This rate (as also the spot buying rate) and the ready selling rate of 1S. 5 63/64d. remained unchanged until the rupee was devalued in June 1966. The Bank commenced forward sales of sterling only in October 1946; this is dealt with in a later chapter.

When banks occasionally found it difficult to take up their forward contracts with the Reserve Bank on due dates on account of the non delivery of or delays in the realisation of shipping bills, as in March 1941, the Bank agreed to the extension of their contracts without penalty. Similar extensions were granted in late 1944 also, but at a penalty of l/64d. The Bank did not consider it necessary to agree to purchase sterling for periods longer than six months; it was, however, agreeable to have the contracts extended if the non-delivery was due to bona fide reasons.

Policies Regarding Gold

During the war years the Reserve Bank and the Government had to pay special attention to the bullion market in view of the important place that gold and silver have held in the Indian economy, constituting important sources of saving and sensitive indicators of the economic and political trends. Bullion prices recorded a more or less continuous rise during the war years, reflecting primarily the fast rising money incomes and the growing preference for bullion not only as a hedge against inflation but also as a commodity that could be freely used in any possible emergency during war. In dealing with the bullion market, the authorities had the same dilemma as that with regard to war financing as a whole. On the one hand, the requirements of the British Government for the U.S. dollars and other hard currencies made it difficult to arrange for any large scale imports of these metals into India; in fact, in the early years of the war the opposite was done, namely, export of these metals from India. On the other hand, with the worsening of inflation, somehow gold and silver had to be found for sale in India. It should be said that the authorities were under no illusion that the necessarily limited sales of gold and silver would curb effectively the inflationary pressure arising from substantial budget deficits. However, the idea was to use gold and silver sales to fight inflation mainly on the psychological front. Perhaps this limited objective was achieved, though so far as gold was concerned, this was at the cost of making available substantial profits (almost matching the rise in commodity prices) to the U.K. and the U.S. Governments. While in the three years 1939-42, India exported (net) 4.435 million ounces of gold at the average rate of Rs.111 per ounce (or fractionally below the Bank of England's price of 168 shillings), she had to pay during 1943-46 an average of Rs. 192 for the 7.5 million ounces of gold sold on behalf of the Allies, that is to say, at a premium of something like 75 per cent.

The movement of bullion prices in India during the war years was as under:

	*Gold (Spot) per tola**			*Silver(Spot) per 100 tol*		
Year	*Highest* *Rs. a. p.*	*Lowest* *Rs. a. p.*	*Average* *Rs. a. p.*	*Highest* *Rs. a. p.*	*Lowest* *Rs. a. p.*	*Average* *Rs. a. p.*
1938-39	37 10 6	34 12 3	35 10 3	53 1 6	48 2 0	51 11 3
1939-40	43 8 0	36 9 0	39 13 11	66 4 0	44 7 6	55 4 9
1940-41	48 8 0	40 2 6	42 6 0	64 13 0	54 10 0	62 8 0
1941-42	57 12 0	41 9 6	44 7 11	97 6 0	61 12 6	66 11 4
1942-43	72 0 0	44 12 0	57 10 10	116 8 0	75 4 0	94 2 6
1943-44	96 4 0	65 4 0	76 11 6	141 8 0	101 8 6	120 7 11
1944-45	76 12 0	61 2 0	71 7 4	143 4 0	113 10 0	128 10 9
1945-46	97 12 0	63 6 0	80 3 0	159 6 0	118 0 0	135 1 11

*8 tolas = 3 ounces.

It will be seen that except for the year 1944-45, the average price of gold registered a continuous increase from Rs. 35-10-3 per tola in 1938-39 to Rs. 80-3-0 in 1945-46. The average price of silver recorded a steady rise, from Rs. 51-11-3 (per 100 tolas) to Rs.135 -1-11 ; the extent of the rise in silver was thus larger than in gold.

This section will be devoted mainly to a discussion of policies with regard to aspects such as conservation of the stocks of monetary gold already in the possession of the Bank, exports of bullion from India in the early years and imports for sale on Government account later, as an anti-inflationary device. Other aspects of bullion such as banning of futures trading, regulation of the delivery period and restrictions concerning extension of credit against bullion are not covered here. A general observation that can be made on these various measures of control is that they were, by and large, ineffective, much more so than in the case of the controls over other commodities.

At a very early stage, the Directors of the Central Board recognised the importance of gold as backing for currency and endeavoured to get the Bank's stocks of gold augmented. They were not successful in this, but at least this had the effect of preventing the drawing down of the existing stocks. In 1939, on the eve of the war, the Bank of England began quietly buying gold in India through the Reserve Bank. Consequently, net exports of gold from India, which had declined from 3.01 million ounces in 1936-37 to 1.36 million in 1938-39, recorded a marked increase to 3.16 million in 1939-40. However, with the rise in Indian prices, above the British parity of 168 s. an ounce or Rs. 42 per tola, net exports declined to 1.09 million ounces in 1940-41 and practically ceased in the next year. Indian opinion had always been critical of the exports of gold. With continuous accumulation of sterling by the Reserve Bank, these exports made little sense, so far as India was concerned. Naturally in the Board there were suggestions for placing an embargo on the exports of gold, but this was opposed by the Governor on the ground that such a step would depress the price of gold in India! This point was ably met by the Board by the suggestion that the Reserve Bank should acquire gold with the surplus sterling resources, at least in the Banking Department where its valuation was not subject to any statutory provision. For, in terms of the Reserve Bank Act, gold was valued at approximately Rs. 21 as. 4 per tola, whereas the prevalent market price was about double. Of course, an amendment of the Act would have been no problem in war time if the authorities had so wished. Naturally the British authorities and the Viceroy were unhappy at the proposal for the Reserve Bank to acquire gold. The Viceroy sent a personal message to Sir Purshotamdas Thakurdas that in his opinion any action by the Bank to impede the outflow of gold would be detrimental to India's war effort. The British Governnent and the Bank of England also sent an appeal to the Bank not to acquire any gold at that time. This matter came up before the Central Board on August 5, 1940. The Board was persuaded to defer consideration of the question of acquiring gold only after an assurance was given by the Governor, on behalf of Government, that gold then held by the Bank in the Issue Department was not to be touched by executive action. The Board insisted on getting this assurance in writing from Government. This was complied with. In fact, clarification was obtained that the term 'executive action' also covered ordinance making power of the Governor General! The Board also expressed the hope that the dollar requirements of India would receive special consideration.

It appears that the Governor suspected, and it so turned out, that the Directors had put forth the suggestion to acquire gold in order to forestall any attempt to whisk away the existing stocks of the Bank's gold. To quote Sir Chintaman Deshmukh:*

* op. cit.

> As it happened, in this the Directors were shrewder than they knew. For, a few months later, the Secretary of State for India did sound the Government of India about utilising the Reserve Bank's gold in order to assist Great Britain. The Government of India opposed the proposal and His Majesty's Government abstained from pressing it.

With the gathering of inflationary forces in India and the increase in the price of gold, not only did exports of gold vanish, but sales of gold in India as an anti-inflationary measure came to be considered, culminating in the commencement of official sales on August 16, 1943. In February 1943, the Secretary of State for India cautiously sounded the Government of India for their views regarding the expediency of certain suggestions that the sale of gold to the public in India might be resorted to as a counter inflationary measure. The feeler from India Office also sought Government's reaction to the proposal that the Reserve Bank's own gold or some part of it ought to be first employed for the purpose in question. The Government of India, in the normal course, desired to have the views of the Governor on these proposals. Sir James Taylor happened to be seriously ill at that time and the Bank's views, opposing these proposals, were communicated to the Government by Deputy Governor Deshmukh after consultation with the Governor, in the following terms:

> He (Taylor) thought it unwise for the India Office to have started on this question on the ground that once gold is supplied for any purpose it would be impossible to limit the demand for it to that purpose alone. . . . . . . From previous talks on the subject which I had with him I know that even from the domestic point of view he does not consider it right for Government to encourage the public to speculate in gold, by making supplies available. I believe he does not also attach much importance to the psychological value of an additional gold backing to our currency, although I myself expect that should gold be made available for similar purposes to China or the Middle East countries a demand for similar treatment will arise in India and Government may be pressed to concede it at least to the extent of obtaining gold as an additional backing to the currency. In view of this it need hardly be said that any proposal to use some of the Reserve Bank's own gold for anti-inflationary sales will be violently resisted.

In the light of the Bank's opinion, the Government of India wrote back to India Office:

> We consider it most dangerous to embark on gold sales unless the amount of gold available (is) very considerable. . . . . . . We should not therefore wish to embark on sales of gold except under the strongest pressure or in the sure knowledge that we had at our disposal ample stocks with which to satisfy all demands. On the other hand, if gold is likely to become available we feel that confidence in our and consequently general confidence could largely be restored

> by increasing the gold backing and we should probably ask for amount of gold which revalued existing reserve would cover one-third of our note issue. Our probable requirement for this purpose would be £ 100 million in gold.

As regards the proposal for using the Reserve Bank's own gold, the Government replied in an emphatic negative as the 'inevitable and immediate result would be severe currency scare'.

The suggestion for gold sales by the British and American Governments as a means to siphon off surplus purchasing power which could be diverted for defence outlays again found favour at a Conference held in Cairo in April 1943 for considering measures necessary to arrest the growing inflationary pressures in the Middle East countries. The Government of India were represented at the Conference and their attitude was that if gold were to be made available for sale in the Middle East countries it would be politically embarrassing to them if the same facility were not made available to India, although Government would prefer to utilise it for strengthening the gold backing against note issue.

Meanwhile, a new proposal came from Sir Henry Strakosch of the India Office, that India should buy gold from the U.S.A. at 168 shillings per ounce (equivalent to Rs. 42 per tola) and resell to the U.S.A. at the same rate, in instalments, over a sufficiently long period, to enable India to acquire the necessary amount of gold from new production. The Government of India welcomed the suggestion. However, the British Government opposed the proposal, being unwilling to assume responsibility for repayment. But they agreed to try out a policy of gold sales in India and the Middle East to cover part of their military expenditure and that of the U.S.A. in these countries and the Government of India accepted the proposal. The first instalments to be made available to India was 0.75 million ounces to cover a period of three months, after which the question was to be further reviewed. It was at first proposed by the U.K. Government that, to start with, the Reserve Bank might sell its own gold against gold earmarked in its favour in London. This suggestion, however, was opposed by the Government of India as this 'would arouse most acute suspicion and baseless rumours that published gold reserve in fact no longer existed intact, which no amount of government denial could kill.' Finally, arrangements were made by the U.K. Government for shipment of gold to India from South Africa.

The Bank started selling gold on behalf of the U.K. Government on August 16, 1943 and sales were later made on account of the U.S.Government too. The sales went on, with some breaks, till mid-August 1945. No announcement was made regarding the sales as it was deemed undesirable for Government to incur any commitment and further there was some advantage in keeping the market guessing. Naturally this itself introduced an element of speculation. It was not, however, difficult for the market to guess that the sales were being made on account of the Allied Governments, since from the Reserve Bank's weekly statements it was obvious that the Bank was not selling its own gold.

Gold and silver sales operations kept the executives of the Bank, especially the Governor, exceptionally busy, since most of the details had to be worked out by the Bank and cleared with the Government of India, the Bank of England, the British Government and the United States Government. In spite of its continuous pleading the Bank did not get that measure of freedom of operation which it desired to have. However, on most of the issues involved in the sales, the Bank's views were accepted by the Bank of England and the British Government. It must also be added that the Governor's views were invariably supported by the Government of India.

There were many practical issues to be settled in connection with the sales, such as, concentrating sales at one important centre, namely Bombay, versus sales all over the country, sales in the form of bullion versus sales in the form of sovereigns and small bars, fixation of limits below which the metal should not be sold and conditions on which gold other than that of the U.K. and the U.S.A. could be sold in India. As already mentioned, on these matters the Bank's views were generally accepted though with some modifications to accommodate the points of view of the other interested parties (that is, the Government of India, the Bank of England, etc.). The Bank itself was most vigilant and took the initiative to suggest changes in the strategy of sales to suit the changing situation.

A close study of the operations reveals that the authorities tried to reconcile several objectives. They wanted to sell as much of the metal as was possible but with reasonable price stability. In other words, the authorities did not want the price to go down significantly below the level on the eve of the commencement of the sale, which was around Rs. 76 per tola. That is why initially a minimum of Rs. 70 for the sale price came to be indicated at a fairly early stage of the sale; later this was raised to Rs. 75, but towards the close of the sales operations it was brought back to Rs. 70. The U. S. authorities, however, seemed to have been a little more flexible in their attitude with regard to the minimum price at which gold could be sold, though it must be added that their requirements of rupees were much smaller than those of the U. K. It was, however, clear that the Allied Governments wanted to make a profit on the sales in relation to the parity price on the basis of $35 an ounce (or 168 shillings an ounce, later raised to 178s. 3d.). The idea was that the price of gold should not fall below the approximate parity with prices of other commodities. It is interesting that the Finance Department of the Government of India came out as a supporter of profit-making by the Allied Governments. Its view was that the widespread criticism in India of profit-making by the Allies and the claim for a profit in the gold sales ' can be fairly rebutted since the price of gold has not risen to the same extent as prices of items and services which H.M.G. and U.S.A. are purchasing here'.

The Bank was able to maintain reasonable stability in price by varying the quantum of its sales to the point of suspending sales altogether for several weeks at a time. Thus, for instance, sales were suspended between May 23 and July 11, 1944 and again between November 3, 1944 and April 2, 1945. The highest price at which gold was sold was Rs. 86-10-0 and the lowest Rs. 61 per tola. The total realisation on the sales of 7 ½ million ounces was Rs. 144 crores or an average of Rs. 72 per tola; the parity price on the basis of $35 an ounce was Rs. 42 per tola. The sales amounted to 3.4 million ounces in 1943-44, 3.2 million in 1944-45 and 0.9 million in 1945-46.

For operational convenience, the bulk of the sales were made in Bombay, originally through recognised bullion dealers and later, from March 30, 1944, through tenders submitted at Bombay. The Bank opposed the sale of the metal in the form of sovereigns since they commanded a high premium and the Bank did not want the Allies to make a further profit. However, in order to make gold available on a country-wide basis, small bars of gold, of and 5 tolas, were sold in upcountry centres through the Imperial Bank from the middle of February 1944. In Bombay such sales were made across the counter from March 29, 1944.

There were enquiries from other countries such as Ethiopia and Australia for sale of gold in India and the Bank was prepared to issue licences on the basis of the levy of a licence fee, corresponding to approximately 50 per cent of the likely profit on the sales, but no such sale materialised.

The Governor successfully resisted attempts for some kind of supervision of the Bank's operations in regard to the sales. The American Government were keen to send an observer to supervise and report on gold (and silver) sales in Bombay; the British authorities found it difficult to resist the request. However, the Governor threatened that in that event the U.S. Government would have to make their own arrangements to sell without the Reserve Bank's intervention. The Bank of England was, of course, keen that the Reserve Bank should handle the U.S. sales too and later the proposal was modified, in that a U.S. Treasury official stationed in Chungking was to spend a week in India to study the working of the gold sales, on his way back to the U.S.A. The Governor had no objection to this arrangement. It is also learnt authoritatively that once when the price of gold threatened to pass the ceiling they seemed to have in mind, the Government of India offered to send their Economic Adviser to advise the Bank on how to handle the situation, which was summarily rejected by the Governor. It was not long before the authorities in India and the U.K. recognised the able manner in which the Reserve Bank had handled the gold sales, requiring to a high degree faculties of secrecy, toughness, capacity to elude the proverbially smartest speculative elements of the Indian bullion market, winning the confidence of the bullion trade that the Bank's procedures were equitable and satisfying the principals in the transaction, namely, the British Government and the U.S. Government. The Bank of England's telegram of February 16, 1944, addressed to the Governor, had this to say:

> The successful manner in which you have handled this extremely difficult matter is highly appreciated here and in Whitehall. You may rest assured that any advice and guidance you may wish to offer will always be most welcome.

For quite some time, even the Central Board Directors were not taken into confidence in the matter of gold sales. There was an unofficial move during the meeting of the Central Board held at Cawnpore on December 11, 1943 to ascertain on whose behalf the sales of gold were being effected, but the Governor would not vouchsafe any information. The Directors, however, wanted to make sure that the Bank's own gold holdings were intact and nine of them paid a visit to the Allahabad Fort, to which place gold had been removed in 1942 with utmost secrecy, for inspecting the gold stocks. It would appear that the Board meeting was specially arranged to take place at Cawnpore, to enable the Directors to pay a visit to Allahabad for this specific purpose. The first official announcement about gold sales was made by the Finance Member in February 1944 while replying to a question in the Central Legislative Assembly. Subsequently, a memorandum giving details of the sales was placed before the Central Board at the meeting held on April 17, 1944.

Exchange of Sovereigns for Gold

Before concluding the section on gold, a brief reference may be made to the exchange of the Bank's holdings of sovereigns for gold bullion, at a premium. The Bank's gold reserve comprised a substantial amount of sovereigns; there were practical disadvantages to the Bank in holding the coins. There was wear and tear; verification for audit purposes was time-consuming and expensive; transportation was difficult; finally, there was scope for petty thefts. On the other hand, there was substantial demand for these sovereigns on account of the seal of purity, easy identification ('its weight, size and fineness have been elaborated by thousands of years' experience', as Sir James Taylor remarked) and convenience to hold, hoard and smuggle in and out. The sovereign therefore commanded a premium over its bullion value.

Thus, it was both convenient and profitable for the Bank to exchange the sovereigns for gold bullion. So, in August 1936, the Governor consulted the Finance Member whether the Bank might start the exchange operation. Government conveyed their concurrence promptly, after getting the matter cleared with India Office, saying that the exchange might be made 'as and when an opportunity of profit arises, say, whenever the premium is 6 annas or above'. The Bank began the operations in September 1936 and except for short breaks, the exchange went on till January 1947. The demand for the sovereigns and consequently the premium, varied a great deal, depending upon the economic and political developments. Thus, during the war, on account of inflation and international political uncertainties of various sorts, the demand increased considerably. In the pre-war years, the premium had varied between 3½ annas and one rupee. In the war years, it ranged from 7 annas to Rs. 6 and annas 10; on occasions the premium constituted over 15 per cent of the bullion value. Sales in the period 1936-47 amounted to almost 12 million pieces, resulting in a profit of over Rs. 2.5 crores.

Early in 1942, because of the tendency to smuggle sovereigns abroad, especially to the Middle East, the Government desired that the exchange of sovereigns be stopped. The Bank reluctantly agreed but within two months the exchange had to be resumed. For, on account of the war developments, the Bank wished to move its gold holdings out of the coastal centres to an interior place. By offering sovereigns at these places, it was possible for the Bank to arrange for delivery of refined gold at Bombay, thus saving the Bank the trouble and expense of transporting the gold stocks.

There were requests more than once that the Bank might make available to foreign Governments sovereigns against credit to its gold account with the Bank of England but the Bank persistently declined these, since in terms of the Reserve Bank Act gold held abroad had to be shown separately in the Bank's Weekly Statement of Affairs and it was feared that this might lead to uninformed suspicions regarding the disposition of India's gold reserves.

Silver

The developments with regard to silver were also many and full of interest. In the case of this metal, official sales were made from the very commencement of the war. In Indian conditions, and in the early years of the war in particular, the authorities had to pay greater attention to silver, not only because of its being the precious metal of the masses but also because of its importance for coinage. Originally, the main objective of official silver policy during the war was to prevent a sharp rise in the price with its adverse repercussions on the currency system of the country, namely, hoarding and melting of silver coins if the bullion value went above the nominal value; in later years, disinflation was the primary objective. It was considered that the appropriate policy for the Government was to utilise the large reserves of silver available with them for meeting the prospective demand both in India and the U.K. at prevailing prices. These reserves consisted partly of bullion acquired in the past for currency purposes and the stocks of silver rupees steadily returned from circulation with the growing use of paper currency. It may be recalled that on the recommendation of the Hilton Young Commission the Government of India had been pursuing since 1927 a policy of reducing the large reserves of silver; the sales of silver on Government account were being conducted in London by the India Office. Even before the war, Sir James Taylor made efforts to have the locale of selling transferred to India, but the India Office was reluctant to give up its prerogative. It had, therefore, been arranged that in the event of a large demand developing from India, especially following a change in the U.S. Government's silver policy and the outbreak of war, the India Office would start selling silver in the London market for delivery at Bombay.

On the eve of the outbreak of war, when silver prices rose sharply owing to the depreciation of sterling and therefore of the rupee vis-a-vis the U.S. dollar and speculative buying, the India Office started sales of silver on August 25, 1939 against deliveries from the Bombay Mint on the basis of London prices including cost of transportation and import duty. After repeated representation from the Bank about the operational advantages of conducting sales in India, India Office concurred. But this was on the eve of the practical exhaustion of the stocks of fine silver! It was announced that, effective December 14, 1939, sales of silver for delivery at Bombay would be conducted by the Bombay Office of the Reserve Bank. After a few days' sales of fine silver, the Bank started selling standard silver, (that is, of eleven-twelfths fineness), which was declared to be tenderable at the Bombay Bullion Exchange at a discount.

Meanwhile, the trend of prices of silver in India and abroad led to growing domestic demand for the import of the white metal from the U.S.A. Since the Reserve. Bank could not indefinitely refuse exchange for the import of silver under the exchange control regulations, the import of silver bullion and sheets and plates without a licence from the Reserve Bank was prohibited under the Sea Customs Act in October 1939. Government had large stocks of standard silver in the form of rupees, but the demand in India was for refined silver and the rising trend of prices was resumed following the ban on imports. The Reserve Bank, therefore, introduced on December 18, 1939, a scheme of licensing imports of silver from the U.S.A. and sterling area countries on a profit-sharing basis and fixed the minimum and the maximum prices for the sale of imported fine silver covered by licences at Rs. 62 and Rs. 64 per 100 tolas, respectively. The Secretary of State and the Bank of England were of course unhappy about imports from the U.S.A. and indeed the Bank of England later refused to allot any appreciable dollars for these imports. Imports under the scheme, which remained in operation till January 31, 1942, amounted to about 11 million ounces, by no means a large quantity.

In the early war years, the Secretary of State seemed to be mainly concerned about using India's silver for meeting the U.K. 's coinage and essential war requirements, for the sake of conserving dollar exchange! In the three years 1940-43, India was a net 'exporter' of silver, to the tune of 68 million ounces; the exports to the U.K. were in the nature of forced supplies to the U.K. Government. Governor Taylor more than once protested against exports to the U.K., which he said, ought to import from sterling area countries like Australia, rather than recommend such action to India. Governor was not also happy at the price paid by the U.K. Government for Indian silver, which was Rs. 50 per 100 tolas, whereas the market price went on rising steadily from an average of Rs. 55-4-9 in 1939-40 to Rs. 94-2-6 in 1942-43. These exports, however, declined sharply from 1943-44 onwards, India becoming a net importer.

On account of the large sales of Government silver by the Bank, there was reasonable price stability till about the close of 1941; the problem of monetary silver was successfully met through the issue of one rupee notes and quaternary rupees. The outbreak of war with Japan intensified the demand for the metal leading to a renewed spell of rising prices. The Bank continued the policy of meeting the demand through the sale of standard silver as its stocks of fine silver were practically exhausted. The uptrend in prices however continued, and the Bank found it very difficult to meet the demand; in one day alone, that is on December 8, 1941, the market absorbed about 6 million ounces. There was temporary suspension of official sales from February 20, 1942. Thereafter, the Bank made only a feeble attempt to exercise restraint through occasional sales, and the speculative orgy continued unabated. The Bank thought it best to let the price rise, in the hope that, to use Sir James's words, 'after all, when people have time to reflect they will realise what the world price of silver is'! Meanwhile, the requirements of silver for coinage increased and sales were finally discontinued from October 14, 1942. The price rising above the melting point of Rs. 109 (per 100 tolas) for standard silver coin no longer bothered the authorities.

As the rise in the price of silver continued, the question of resumption of imports from the U.S.A. was considered, from the anti-inflationary point of view. The Bank made it clear that controls on bullion trading would not be effective. The Bank, as Mr. Deshmukh explained to Government in June 1943, was also of the view that Government were not equal to the task of controlling the price. The crux of the problem was the intensification of anti-inflationary action. However, Government were keen on arranging for some imports from the U.S.A. It was noted that the bulk of the silver coming to the market was allocated for industrial requirements. The only prospect of getting silver was from the U.S. Government. Through the passage, in July 1943, of what is known as the Green Bill, the U.S. Treasury was in a position to make available supplies as a result of the freeing of about one billion ounces from monetary reserves. So, negotiations were set in motion and in the first instance, in August 1943, the U.S. Government agreed to make available 20 million ounces to the Government of India for coinage purposes, to be returned within a period of five years from the termination of the war emergency. Negotiations were also begun for the supply of about 100 million ounces for supplementing currency reserves and for anti-inflationary sales in the Indian market. There was considerable delay in the finalisation of the arrangements, especially over the question whether the agreement should be between the U.S. Government and the Government of India, as in the case of the 20 million ounces supplied for coinage purposes, or whether the British Government should be a party to the agreement. The U.S. Administration was keen on the latter, in view of the uncertainty about the future Indian constitution and the attitude of the Government of India to foreign obligations. The agreement was finally concluded in June 1944, on the basis that the British Government would stand guarantee for the return of the metal after the war. In all 226 million ounces were supplied to India under the Lend-Lease Arrangement. The actual sale of Lend-Lease silver in the Indian market was only 50 million ounces, about 37 million in 1944-45 and about 13 million in 1945-46. It may be mentioned that the Reserve Bank had maintained from the beginning that the direct anti-inflationary value of silver sales would not be considerable, and that the sales could only have indirect psychological effect. Finally, Government came round to this view and the sales of silver were suspended from July 4, 1945, six weeks prior to the suspension of the sales of gold. A good portion of the lend-lease stocks remained in bullion form, enabling the Government to return the metal partly in bullion and partly in the form of quaternary coin, in 1957. During the seven-year period 1939-46, Government sold in all 181 million ounces of silver in the Indian market, as under.

(April-March)			(Million ounces)
1939-40	..	..	3.0
1940-41	..	..	18.0
1941-42	..	..	94.0
1942-43	..	..	16.0
1943-44	..	..	-
1944-45	..	..	37.1
1945-46	..	..	12.9
TOTAL	..	..	181 .0