

No. 176

**UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND
and
INDIA**

**Financial Agreement relating to sterling balances of India
(with Exchange of Notes). Signed at London, on
14 August 1947**

*English official text communicated by the United Kingdom Representative to
the United Nations. The registration took place on 24 December 1947.*

**ROYAUME-UNI DE GRANDE-BRETAGNE ET
D'IRLANDE DU NORD
et
INDE**

**Accord financier relatif aux soldes en livres sterling de l'Inde
(avec échange de notes). Signé à Londres, le 14 août
1947**

*Texte officiel anglais communiqué par le représentant du Royaume-Uni auprès
de l'Organisation des Nations Unies. L'enregistrement a eu lieu le 24 dé-
cembre 1947.*

No. 176. FINANCIAL AGREEMENT¹ BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM AND THE GOVERNMENT OF INDIA. SIGNED AT LONDON, ON 14 AUGUST 1947

The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as "the Government of the United Kingdom") and the Government of India,

Being desirous of making a temporary arrangement for dealing with the sterling balances of India,

Have agreed as follows:—

Article I

For the purposes of this Agreement the sterling assets of the Reserve Bank of India shall be taken at the figure of £1,160 million.

Article II

1. The Reserve Bank of India shall open with the Bank of England a new account (hereinafter referred to as the "No. 2 Account"), to which the balance of the total assets referred to in Article I above, remaining at the close of business on the date of the signature of this Agreement, shall be transferred.

2. The No. 2 Account of the Reserve Bank of India shall be operated upon in accordance with the provisions of Article VI of this Agreement and any sums standing to the credit of the said Account shall be available only for the purposes prescribed in that Article.

Article III

1. There shall also be established at the Bank of England in the name of the Reserve Bank of India a new account (hereinafter referred to as the "No. 1 Account") to which any sterling received after the date of this Agreement by the Reserve Bank of India in respect of current transactions and any sums transferred from the No. 2 Account shall be credited.

¹ Came into force on 14 August 1947, in accordance with article XI.

2. The Government of the United Kingdom shall not restrict the availability of sterling standing to the credit of the No. 1 Account for payments for current transactions in any currency area or for the purpose of any payment to residents of the sterling area.

Article IV

1. There shall be transferred forthwith from the No. 2 Account to the No. 1 Account £35 million less the amount by which the total of the Reserve Bank of India's sterling assets, as established by Article I of this Agreement, exceeds the amount transferred to the No. 2 Account in accordance with paragraph 1 of Article II of this Agreement.

2. There shall also be transferred from the No. 2 Account to the No. 1 Account the equivalent of any sums paid from the No. 1 Account after the 15th July, 1947, in respect of:—

- (i) the transfer of ownership of military stores, equipment and fixed assets in India from the Government of the United Kingdom to the Government of India on the 1st April, 1947;
- (ii) the settlement of any matters outstanding under the Defence Expenditure Plan and of any other accounts relating to transactions which were connected with the War and took place prior to the 15th July, 1947;
- (iii) payments outside India as a result of Agreements for the release of assets which were vested in the Indian Custodian of Enemy Property;
- (iv) pensions paid outside India by or on behalf of the Government of India or any Provincial Government in respect of which an eventual capitalisation scheme is contemplated;
- (v) such other items as the two Governments may agree.

3. There shall be transferred from the No. 1 Account to the No. 2 Account the equivalent of any sums paid into the No. 1 Account after the 15th July, 1947, in respect of:—

- (i) the settlement of any matters outstanding under the Defence Expenditure Plan and of any other accounts relating to transactions which were connected with the War and took place prior to the 15th July, 1947;
- (ii) such other items as the two Governments may agree.

Article V

1. In addition to the transfer provided in paragraph 1 of Article IV of this Agreement there shall also be transferred forthwith from the No. 2 Account to the No. 1 Account a sum of £30 million as a working balance which may be drawn upon from time to time to meet any temporary shortage in India's available means of payment abroad.

2. The level at which the working balance provided for in this Article has been maintained during the currency of this Agreement shall be taken into consideration in the consultations referred to in Article XI of this Agreement in the light of such data as may then be provided.

Article VI

(a) The No. 2 Account referred to in Article II of this Agreement shall be credited with—

- (i) the assets referred to in Article II of this Agreement, including the proceeds thereof at maturity or on realisation;
- (ii) the proceeds at maturity or on realisation of any investments purchased in accordance with established custom with funds standing to the credit of the No. 2 Account;
- (iii) transfers from the No. 1 Account, being transfers provided for in paragraph 3 of Article IV and paragraph 2 of Article VIII of this Agreement;
- (iv) such other transfers as may be agreed between the two Governments.

(b) The No. 2 Account shall be debited with—

- (i) transfers in accordance with paragraphs 1 and 2 of Article IV, paragraph 1 of Article V and paragraph 2 of Article VIII of this Agreement;
- (ii) payments in respect of investments made in accordance with established custom;
- (iii) such other transfers as may be agreed between the two Governments.

Article VII

The Government of India shall not restrict—

- (a) the acceptance by residents of India, in settlement of payments for current transactions, of sterling at the disposal of residents outside India;

- (b) the availability of any Indian rupees arising from permitted current transactions and accruing to residents of the sterling area for any payments inside India or for the purchase of sterling.

Article VIII

1. Such transfers of capital from India to the rest of the sterling area and *vice versa* as may be agreed between the Reserve Bank of India and the Bank of England shall be subject to the provisions of paragraph 2 of this Article.

2. The Reserve Bank of India and the Bank of England shall consult together at agreed intervals in order to establish by reference to the best statistical data available to them the net capital movement from India to the other countries of the sterling area, or *vice versa*, as the case may be, resulting from the agreed transfers of capital. Thereafter an amount equal to the net capital movement so established shall be transferred from the No. 2 Account to the No. 1 Account if the movement is one from India to the other countries of the sterling area or from the No. 1 Account to the No. 2 Account if the movement is in the reverse direction.

3. Notwithstanding anything in this Article the two Governments shall not restrict transfers of capital from India to the United Kingdom representing—

- (a) remittances of savings belonging to persons of United Kingdom origin leaving India in order to take up permanent residence in the United Kingdom; and
- (b) the voluntary repatriation of investments by persons regarded as resident in the United Kingdom for purposes of exchange control in the United Kingdom.

4. Transfers of capital falling within the description in sections (a) and (b) of the preceding paragraph shall be included in the computations for which paragraph 2 provides.

Article IX

1. The two Governments shall as often as may be necessary consult together with a view to ensuring the smooth working of the present Agreement.

2. The Reserve Bank of India and the Bank of England shall be entrusted with the technical execution of this Agreement and shall consult together as often as may be necessary in order to ensure its smooth working.

Article X

For the purpose of the present Agreement—

- (a) in relation to events happening on or after the 15th August, 1947, references to the Government of India shall be construed as references to the Governments of both the new Dominions set up by the Indian Independence Act, 1947, or to the Government of either of them, as the circumstances require, and the expression “India” shall continue to denote the territories included in that expression immediately prior to the 15th August, 1947;
- (b) the expression “sterling area” shall have the meaning from time to time assigned to it by the Exchange Control Regulations in force in the United Kingdom. After the coming into force in the United Kingdom of the Exchange Control Act, 1947, the expression “sterling area” wherever it occurs in the present Agreement shall be deemed to have been replaced by the expression “scheduled territories,” which shall have the meaning from time to time assigned to it in the aforesaid Exchange Control Act, 1947;
- (c) the expression “payments for current transactions” shall have the same meaning as in Article XIX (i) of the Articles of Agreement of the International Monetary Fund;
- (d) in paragraph 2 of Article IV the expression “pensions” shall have the meaning assigned to it in the Indian Independence Act, 1947.

Article XI

The present Agreement shall come into force on the 14th August, 1947. It shall terminate on the 31st December, 1947. Further consultations shall be held before the termination of this Agreement with a view to extending it or replacing it by another Agreement or other Agreements.

IN WITNESS WHEREOF the undersigned, being duly authorised thereto by their respective Governments, have signed the present Agreement.

DONE at London this fourteenth day of August, 1947, in duplicate.

For the Government of the United Kingdom:
Wilfrid EADY

For the Government of India;
V. Narahari RAO

EXCHANGE OF NOTES

I

INDIAN STERLING BALANCES DELEGATION
INDIA HOUSE, ALDWYCH, LONDON, W.C.2

14th August, 1947

Dear Sir Wilfrid Eady,

With reference to the Financial Agreement between our two Governments, which we have signed to-day, it is necessary to record our understanding that Indian private sterling balances will not be subject, as the result of this Agreement, to any restriction under Exchange Control Regulations in force in the United Kingdom which did not apply to them before the signature of the Agreement.

For the purposes of this letter, the expression "Indian private balances" refers to sterling balances with banks in the United Kingdom owned by residents of India other than the Reserve Bank of India and the Authorised Dealers in Foreign Exchange in India; the balances of the Reserve Bank are dealt with by the Agreement itself and those of the Authorised Dealers in Foreign Exchange in India are covered by an understanding which has been reached between the Bank of England and the Reserve Bank of India.

I should be grateful if you would confirm that this correctly sets out the position.

Yours sincerely,

(Signed) V. Narahari RAO

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.
Second Secretary
His Majesty's Treasury
Whitehall, S.W.1

II

TREASURY CHAMBERS, S.W.1

14th August, 1947

Dear Mr. Narahari Rao,

I have to acknowledge the receipt of your letter of today's date reading as follows:—

[See Note I]

I have pleasure in confirming that your letter correctly sets out the position with regard to these private balances.

Yours sincerely,

(Signed) W. EADY

The Hon. Mr. V. Narahari Rao, C.S.I., C.I.E.

III

TREASURY CHAMBERS, S.W.1

14th August, 1947

Dear Mr. Narahari Rao,

With reference to the Financial Agreement between our two Governments, signed today, I wish to record the understanding of His Majesty's Government regarding the treatment of the sum of United States dollars which has been allocated to India and which is known as India's "Post-War Dollar Fund." To the extent that any drawings on the unexpended balance of this Fund have been or are made during the period 15th July to 31st December 1947 an equivalent amount in sterling shall be transferred from the No. 2 Account to the No. 1 Account of the Reserve Bank of India.

I should be grateful to have your confirmation of this understanding on behalf of the Government of India.

Yours sincerely,

(Signed) W. EADY

The Hon. Mr. V. Narahari Rao, C.S.I., C.I.E.

IV

INDIAN STERLING BALANCES DELEGATION
INDIA HOUSE, ALDWYCH, LONDON, W.C.2

14th August, 1947

Dear Sir Wilfrid Eady,

I have to acknowledge your letter of to-day's date reading as follows:—

[See Note III]

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely,

(Signed) V. Narahari RAO

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.
Second Secretary
His Majesty's Treasury
Whitehall, S.W.1

V

TREASURY CHAMBERS, S.W.1

14th August, 1947

Dear Mr. Narahari Rao,

With reference to the Financial Agreement between our two Governments, signed today, it is necessary to record our understanding regarding the sterling assets in the Silver Redemption Reserve which has been maintained hitherto for the purpose of enabling the Government of India to fulfil its obligation under Section 36 of the Reserve Bank of India Act, 1934.

So long as it remains undisturbed His Majesty's Government will regard this Reserve as a capital asset of the Government of India and excluded from the scope of the present Agreement. In the event, however, of the liquidation of this Reserve, in whole or in part, during the currency of the Agreement, the resultant proceeds should, as we see it, be credited to the No. 2 Account of the Reserve Bank of India; similarly any payments to the Silver Redemption Reserve in pursuance of the practice of maintaining the value of the assets therein shall be charged to the No. 2 Account.

I should be grateful to have your confirmation that this is in accordance with the understanding of the Government of India.

Yours sincerely,

(Signed) W. EADY

The Hon. Mr. V. Narahari Rao, C.S.I., C.I.E.

VI

INDIAN STERLING BALANCES DELEGATION
INDIA HOUSE, ALDWYCH, LONDON, W.C.2

14th August, 1947

Dear Sir Wilfrid Eady,

I have to acknowledge your letter of to-day's date reading as follows:—

[See Note V]

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely,

(Signed) V. Narahari RAO

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.
Second Secretary
His Majesty's Treasury
Whitehall, S.W.1

VII

TREASURY CHAMBERS, S.W.1

14th August, 1947

Dear Mr. Narahari Rao,

In the interim Agreement which we have signed today neither Government has made any reference to the rate of interest to be earned on the sterling balances.

His Majesty's Government understands that the Government of India have agreed with the Reserve Bank of India that during the currency of the Agreement the Bank will not alter the disposition of its sterling assets in such a manner as to increase appreciably the overall rate of interest which such assets are at present earning. Subject to this understanding the Reserve Bank will be free to alter its investments in accordance with normal central banking practice.

I should be grateful to have your confirmation of this understanding on behalf of the Government of India.

Yours sincerely,

(Signed) W. EADY

The Hon. Mr. V. Narahari Rao, C.S.I., C.I.E.

VIII

INDIAN STERLING BALANCES DELEGATION
INDIA HOUSE, ALDWYCH, LONDON, W.C.2

14th August, 1947

Dear Sir Wilfrid Eady,

I have to acknowledge receipt of your letter of to-day's date reading as follows:—

[See Note VII]

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

Yours sincerely,

(Signed) V. Narahari RAO

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.
Second Secretary
His Majesty's Treasury
Whitehall, S.W.1

IX

TREASURY CHAMBERS, S.W.1

14th August, 1947

Dear Mr. Narahari Rao,

On the conclusion of the discussions leading to the Financial Agreement which you and I have signed today on behalf of our respective Governments, I wish to express my appreciation of the spirit of cordiality and understanding which has been a feature of the negotiations.

It is understood on the part of His Majesty's Government that the Agreement is of an interim nature to cover the period up to the end of the present calendar year and that it is without prejudice to any subsequent discussions regarding India's sterling balances.

I should be grateful to have your confirmation that this is also the understanding of your Government.

Yours sincerely,

(Signed) W. EADY

The Hon. Mr. V. Narahari Rao, C.S.I., C.I.E.

X

INDIAN STERLING BALANCES DELEGATION
INDIA HOUSE, ALDWYCH, LONDON, W.C.2

14th August, 1947

Dear Sir Wilfrid Eady,

I have to acknowledge your letter of to-day's date reading as follows:—

[See Note IX]

I have pleasure in confirming that the understanding of your Government, as set out in that letter, is accepted by my Government.

May I on my part say how much we have appreciated the spirit of mutual sympathy and understanding which has pervaded the discussions between the two Delegations.

Yours sincerely,

(Signed) V. Narahari Rao

Sir Wilfrid Eady, K.C.B., K.B.E., C.M.G.
Second Secretary
His Majesty's Treasury
Whitehall, S.W.1
