

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

**Exchange of letters constituting an agreement extending the Financial Agreement of 14 August 1947. New Delhi, 15 February 1948**

**Exchange of letters constituting an agreement extending the understanding reached between the two Governments by an exchange of notes of 14 August 1947 regarding the Post-War Dollar Fund, the Silver Redemption Reserve, etc. New Delhi, 15 February 1948**

**Exchange of letters constituting an agreement extending the Financial Agreement of 14 August 1947 and making certain financial provisions in respect of defence stores and installations taken over from the Government of the United Kingdom and of the sterling pensions liabilities of the Dominion and Provinces of India. London, 9 July 1948**

**Exchange of letters constituting an agreement further extending the understanding reached between the two Governments by an exchange of notes of 14 August 1947 regarding the Silver Redemption Reserve, the rate of interest on sterling balances, etc. London, 9 July 1948**

**Exchange of letters constituting an agreement regarding the Indian Defence Expenditure Plan. London, 9 July 1948**

**Exchange of letters constituting an agreement regarding the extended application of the Financial Agreement of 14 August 1947. London, 1 August 1949**

*Official texts: English.*

*Registered by the United Kingdom of Great Britain and Northern Ireland on 7 July 1952.*

No. 1796. EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup> BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND INDIA EXTENDING THE FINANCIAL AGREEMENT OF 14 AUGUST 1947<sup>2</sup>. NEW DELHI, 15 FEBRUARY 1948

---

I

*Sir J. Raisman to Mr. Narahari Rao*

UNITED KINGDOM FINANCIAL DELEGATION  
COMMANDER-IN-CHIEF'S HOUSE  
NEW DELHI

15th February, 1948

Dear Mr. Narahari Rao,

As a result of the consultations provided for in Article XI of the Agreement signed in London on 14th August, 1947<sup>2</sup> (hereinafter called "the principal Agreement"), between the Government of the United Kingdom and the Government of India, the following arrangements have been agreed upon between our two Governments for the extension of the principal Agreement.

1.—(a) The Government of the United Kingdom has taken note of paragraphs 2, 3 and 4 (a copy of which is annexed to this letter) of the Minutes of the proceedings of the Partition Council held on 1st December, 1947 (Case No. PC/218/20/47), recording the agreement (hereinafter called "the India/Pakistan Agreement") reached between the Government of India and the Government of Pakistan for the maintenance by the Reserve Bank of India of a separate account or accounts for sterling received or paid on and after 1st January, 1948, in respect of current transactions affecting Pakistan or for sterling transferred after that date from the No. 2 Account by agreement between the Government of the United Kingdom and the Government of Pakistan.

(b) The Government of the United Kingdom will accordingly enter into separate arrangements with the Government of Pakistan in regard to these and other matters covered by the principal Agreement for the period subsequent to 31st December, 1947.

---

<sup>1</sup> Came into force on 15 February 1948, with retroactive effect from 1 January 1948, by the exchange of the said letters.

<sup>2</sup> United Nations, *Treaty Series*, Vol. 11, p. 371.

2. The Government of the United Kingdom further takes note that—

(a) the Reserve Bank of India will transfer from the No. 2 Account to the account to be opened for the conduct of current transactions relating to Pakistan (hereinafter called "the Pakistan Account") the sums agreed between the Government of the United Kingdom and the Government of Pakistan to be made currently available to Pakistan.

(b) the Reserve Bank of India will also transfer from the No. 1 Account to the Pakistan Account a sum determined in accordance with paragraph 4 of the India/Pakistan Agreement plus a sum determined by the Reserve Bank of India as representing receipts on behalf of Pakistan from 1st January, 1948, to the date of the opening of the Pakistan Account, less a sum determined by the Reserve Bank of India as representing payments made on behalf of Pakistan from 1st January, 1948, to the date of the opening of the Pakistan Account.

(c) the Reserve Bank of India will from time to time make transfers in either direction between the No. 2 Account and the Pakistan Account in respect of such items as the Government of the United Kingdom and the Government of Pakistan may agree, in so far as they relate to transactions of Pakistan in terms of the Agreement which the Government of the United Kingdom propose to make with the Government of Pakistan in accordance with paragraph 1 (b) of this letter.

The Government of India will forthwith issue to the Reserve Bank of India any instructions which may be necessary to enable the Reserve Bank of India to carry out the foregoing arrangements.

3. The principal Agreement as modified in this letter shall be extended to 30th June, 1948, and shall be interpreted where appropriate in accordance with the provisions of this letter. The extension shall come into force on 15th February, 1948, but shall have effect in all respects as from 1st January, 1948.

4. The extension now agreed upon shall relate only to the Dominion of India and Article X (a) of the principal Agreement shall be interpreted accordingly.

5. There shall be transferred from the No. 2 Account to the No. 1 Account the sum of £18,000,000.

6. The Government of India will co-operate with other members of the sterling area in conserving the exchange resources of the area by limiting expenditure in the territories listed in paragraph 7 of this letter to the fullest extent compatible with the purchase of India's essential needs. In pursuance of this policy, the Government of India will take steps to purchase part of their requirements of United States dollars from the International Monetary Fund.

Further, the Government of India undertakes so to limit expenditure between 1st January, 1948, and 30th June, 1948, in the territories listed in paragraph 7 as to ensure that such expenditure does not exceed receipts from those territories, together with the dollars to be purchased from the International Monetary Fund, by more than £10,000,000. Provided that the amounts required to be paid by India to the International Monetary Fund by way of charges shall not be included in the computation of this sum of £10,000,000. Article III 2 of the principal Agreement shall be modified accordingly.

7. The territories to which reference is made in paragraph 6 of this letter are the following :—

The whole of the Continent of North, Central and South America and adjacent islands but excluding territories which are part of the sterling area, the Dutch monetary area and the French franc area.

The Belgian monetary area.

Japan.

The Philippines.

The Portuguese monetary area but excluding Portuguese India.

Sweden.

Switzerland and Liechtenstein.

8. Further consultation shall be held before the termination of the principal Agreement as extended by this letter with a view to extending it further or replacing it by another Agreement or other Agreements.

9. I should be grateful to have your confirmation that this letter correctly sets out the understanding reached between us and that it, together with your reply, shall constitute an extension, in the terms of paragraph 3 of this letter, of the principal Agreement.

Yours sincerely,

(Signed) Jeremy RAISMAN

V. Narahari Rao, Esq., C.S.I., C.I.E.  
Ministry of Finance  
New Delhi

*Extract from the Minutes of the Partition Council Meeting  
held on 1st December, 1947*

Case No. PC/218/20/47

STERLING ASSETS OF THE RESERVE BANK OF INDIA

2. The two Dominions will negotiate separately with H.M.G. for releases beyond 1st January, 1948. The Reserve Bank will open a separate account or accounts with the Bank of England to which will be transferred from its present account No. 2 a sum equivalent to the release made by H.M.G. to Pakistan together with the amount fixed as Pakistan's working balance. Pakistan's exchange operations will be conducted through these accounts. In assessing the total sterling holdings of the Reserve Bank for purposes of paragraph 1 (a) above, the amounts standing in the Reserve Bank's Accounts Nos. 1 and 2 will be taken into account together with the amounts in the "Pakistan" accounts with the Bank of England either through the Reserve Bank or otherwise.

3. From the 1st January, 1948, onwards, each Dominion will retain separately its own foreign exchange earnings and its own foreign exchange expenditure will be debited against these earnings. By the term "its own" earnings or expenditure is meant the earnings arising out of exports from, and the expenditure due to imports into, ports within the territory of each Dominion. Invisible earnings and expenditure will be allocated according to the territory in which the transaction giving rise to them takes place.

4. The Government of India will transfer from Account No. 1 of the Reserve Bank of India to the similar account of Pakistan when established a sum in sterling equivalent to the difference between Rs.6.95 crores and the c.i.f. value of "limit" items actually imported into Pakistan ports between the 1st July, 1947, and the 31st December, 1947.

Provided that if India is not allowed to carry forward the entire sum standing to its credit in Account No. 1 on 31st December, 1947, the payment above mentioned will be reduced in proportion to the reduction in the amount agreed to be carried forward.

## II

*Mr. Narahari Rao to Sir. J. Raisman*

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
NEW DELHI

15th February, 1948

Dear Sir Jeremy Raisman,

I have to acknowledge your letter of today's date, reading as follows :

[See letter I]

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 Jeremy Raisman, G.C.I.E., K.C.S.I.  
Leader U.K. Financial Delegation to India  
New Delhi

## III

*Sir J. Raisman to Mr. Narahari Rao*

UNITED KINGDOM FINANCIAL DELEGATION  
COMMANDER-IN-CHIEF'S HOUSE  
NEW DELHI

15th February, 1948

Dear Mr. Narahari Rao,

In the letters which you and I have signed to-day extending the Financial Agreement between our respective Governments, it is provided that the Government of India will take steps to limit to the sum of £10,000,000 their net drawings upon the central reserves in respect of payments to the territories listed in paragraph 7 of my letter. It is understood between us that this figure includes the following items—

(a) United States dollar balances at 31st December 1947 of banks in India in excess of the normal level of those balances; this excess we have agreed shall be considered to be the equivalent of £1,000,000.

(b) The whole of the remaining balance of the sum of United States dollars known as India's "Post-War Dollar Fund." This means that by 30th June 1948 India will have no further claim on the Post-War Dollar Fund.

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

Yours sincerely,

(Signed) Jeremy RAISMAN

V. Narahari Rao, Esq., C.S.I., C.I.E.  
Ministry of Finance  
New Delhi

IV

*Mr. Narahari Rao to Sir J. Raisman*

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
NEW DELHI

15th February, 1948

Dear Sir Jeremy Raisman,

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

[See letter 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 Jeremy Raisman, G.C.I.E., K.C.S.I.  
Leader of the U.K. Delegation to India  
New Delhi

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup>  
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND  
NORTHERN IRELAND AND INDIA EXTENDING THE UNDER-  
STANDING REACHED BETWEEN THE TWO GOVERNMENTS  
BY AN EXCHANGE OF NOTES OF 14 AUGUST 1947<sup>2</sup> REGARDING  
THE POST-WAR DOLLAR FUND, THE SILVER REDEMPTION  
RESERVE, ETC. NEW DELHI, 15 FEBRUARY 1948

## I

*Sir Jeremy Raisman to Mr. Narahari Rao*

UNITED KINGDOM FINANCIAL DELEGATION  
COMMANDER-IN-CHIEF'S HOUSE  
NEW DELHI

15th February, 1948

Dear Mr. Narahari Rao,

On the conclusion of the discussions leading up to the exchange of letters extending the Financial Agreement of 14th August 1947<sup>2</sup> which you and I have signed to-day 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 the Government of the United Kingdom that the extension of the Agreement is of an interim nature to cover the period up to 30th June, 1948, and that it is without prejudice to any subsequent discussions regarding India's sterling balances.

Certain matters agreed in London in July and August 1947 between you and Sir Wilfrid Eady are recorded in the four letters which were exchanged on 14th August 1947 regarding India's Post-War Dollar Fund, the Silver Redemption Reserve, the rate of interest to be earned on the sterling balances and Indian private sterling balances. It is further understood between us that the arrangements set out in these letters will remain in force for the period of the extended Agreement.

<sup>1</sup> Came into force on 15 February 1948 by the exchange of the said letters.

<sup>2</sup> United Nations, *Treaty Series*, Vol. 11, p. 371.



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

Yours sincerely,

(Signed) Jeremy RAISMAN

V. Narahari Rao, Esq., C.S.I., C.I.E.  
Ministry of Finance  
New Delhi

II

*Mr. Narahari Rao to Sir Jeremy Raisman*

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE

New Delhi, the 15th of February, 1948

Dear Sir Jeremy Raisman,

I have to acknowledge your letter of to-days date, reading as follows :—

[See letter I]

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 Jeremy Raisman, G.C.I.E., K.C.S.I.  
Leader U.K. Financial Delegation to India  
New Delhi

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup> BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND INDIA EXTENDING THE FINANCIAL AGREEMENT OF 14 AUGUST 1947<sup>2</sup> AND MAKING CERTAIN FINANCIAL PROVISIONS IN RESPECT OF DEFENCE STORES AND INSTALLATIONS TAKEN OVER FROM THE GOVERNMENT OF THE UNITED KINGDOM AND OF THE STERLING PENSIONS LIABILITIES OF THE DOMINION AND PROVINCES OF INDIA. LONDON, 9 JULY 1948

---

I

*Chancellor of the Exchequer to Finance Minister of India*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
LONDON, S.W. 1

9th July, 1948

My dear Minister,

As the result of the consultation provided for in paragraph 8 of Sir Jeremy Raisman's letter of the 15th February, 1948<sup>3</sup> to Mr. Narahari Rao which extended the Agreement signed in London on the 14th August, 1947<sup>2</sup> (hereinafter called the "Principal Agreement") between the Government of the United Kingdom and the Government of India, the following arrangements have been agreed upon between our two Governments for the extension of the Principal Agreement :—

1. The Principal Agreement, as modified by Sir Jeremy Raisman's letter to which I have referred above and as further modified by this letter, shall be extended to 30th June, 1951.

2. In view of the current level of the balance on the No. 1 Account no provision has been made for further transfers from the No. 2 to the No. 1 Account in respect of the period 1st July, 1948 to 30th June, 1949.

3. There shall be transferred from the No. 2 to the No. 1 Account a sum not exceeding £40 million in the period 1st July, 1949 to 30th June, 1950 and

---

<sup>1</sup> Came into force on 9 July 1948, with retroactive effect from 1 July 1948, by the exchange of the said letters.

<sup>2</sup> United Nations, *Treaty Series*, Vol. 11, p. 371

<sup>3</sup> See p. 84 of this volume.

a sum not exceeding £40 million during the period 1st July, 1950 to 30th June, 1951, provided that :—

(a) any part of the amount of £40 million not transferred during the year ending 30th June, 1950 shall be carried forward and added to the sum available for transfer in the year ending 30th June, 1951;

(b) no transfers shall take place unless the balance on the No. 1 Account at the end of any month is less than £60 million;

(c) transfers sufficient to restore the balance to a minimum of £60 million shall take place in multiples of £5 million.

4. The Government of India undertakes so to limit expenditure in "hard currency" areas that net drawings on the central reserves in the year 1st July, 1948 to 30th June, 1949 do not exceed the equivalent of £15 million, provided that any amounts required to be paid by India to the International Monetary Fund by way of charges for currencies purchased from that Fund shall not be included in the computation of this sum of £15 million. This figure for the net drawings on the central reserves has been agreed in the light of India's needs for supplies necessary for the maintenance and development of her productive capacity.

Further consultation shall take place, as provided in paragraph 7, with regard to the means of meeting any deficit in India's receipts and payments with the hard currency areas in the years ending 30th June, 1950 and 30th June, 1951.

5. For the purpose of the preceding paragraph the term "hard currency area" means :—

The whole of the Continents of North, Central and South America and adjacent Islands but excluding Brazil, Chile, Uruguay, and any territories which are part of the sterling area, the Dutch Monetary Area or the French Franc Area

The Belgian Monetary Area

Japan

The Philippines

The Portuguese Monetary Area but excluding Portuguese India

The Joint U.S.-U.K. Zones of Germany,

provided

(a) that not more than £3½ millions of any surplus earned by India with Japan shall be taken into account for the purpose of determining India's hard currency earnings, and

(b) that this list may be varied by agreement between the two Governments.

6. Arrangements shall be made by agreement between the two Governments for consultation to take place from time to time with regard to matters arising out of the execution of the Principal Agreement as modified by Sir Jeremy Raisman's letter of the 15th February, 1948 and by this letter.

7. Further consultation shall take place before the termination of the Principal Agreement as extended by this letter with a view to extending it further or replacing it by another Agreement or other Agreements.

I should be grateful to have your confirmation that this letter correctly sets out the understanding reached between us and that it, together with your reply, shall constitute an extension, in terms of paragraph 1 of this letter, of the Principal Agreement.

Yours sincerely,

R. STAFFORD CRIPPS

The Honourable Shri R. K. Shanmukham Chetty  
Minister of Finance  
Government of India  
2, Park Street, London, W. 1

II

*Finance Minister of India to Chancellor of the Exchequer*

2, PARK STREET  
LONDON, W. 1

9th July, 1948

My dear Chancellor,

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

[See letter I]

2. I have pleasure in confirming that the letter correctly sets out the understanding reached between us and that it, together with my reply, constitutes an extension, in the terms of paragraph 1 of the letter, of the Principal Agreement.

Yours sincerely,

R. K. SHANMUKHAM CHETTY

The Rt. Hon. Sir Stafford Cripps. K.C., M.P.  
Chancellor of the Exchequer  
Treasury  
Great George Street, S.W. 1.

## III

*Chancellor of the Exchequer to Finance Minister of India*

TREASURY CHAMBERS  
GREAT GEORGE ST., S.W. 1.

9th July, 1948

My dear Minister,

I write with reference to the arrangements that have been discussed between our Governments regarding the final settlement of the amount payable in respect of Defence stores and fixed assets taken over by the Government of undivided India on 1st April, 1947.

2. My understanding of the decision reached at the discussions is as follows :—

(a) A sum of £100 millions will be paid by the Government of India in respect of all Defence stores and fixed assets, including surplus stores and equipment with units of the Armed Forces which were the property of the Government of the United Kingdom and which were taken over by the Government of undivided India on 1st April, 1947. This will also cover stores in transit on that date.

(b) The payment mentioned above will be in full and final settlement between the Government of the United Kingdom on the one hand and the Governments of India and Pakistan on the other in respect of all Defence stores and fixed assets located in undivided India which were the property of the Government of the United Kingdom.

3. I shall be grateful if you would confirm to me and to the Finance Minister of Pakistan that this is also the understanding of your Government.

4. I am sending a similar letter to the Finance Minister of Pakistan with the request that he should confirm to both of us that this is also the understanding of his Government.

Yours sincerely,

R. STAFFORD CRIPPS

The Honourable Shri R. K. Shanmukham Chetty  
Minister of Finance  
Government of India  
2, Park Street, London, W. 1.

## IV

*Finance Minister of India to Chancellor of the Exchequer*

2, PARK STREET  
LONDON, W. 1

9th July, 1948

My dear Chancellor,

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

[See letter III]

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

I have also confirmed this to the Finance Minister of Pakistan.

Yours sincerely,

R. K. SHANMUKHAM CHETTY

The Right Hon. Sir Stafford Cripps, K.C., M.P.  
Chancellor of the Exchequer  
Treasury  
Great George Street, S.W. 1.

## V

*Chancellor of the Exchequer to Finance Minister of India*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
LONDON, S.W. 1

9th July, 1948

My dear Minister,

I write with reference to the arrangements that we have discussed regarding the purchase of an annuity by the Government of India from the Government of the United Kingdom for the purpose of meeting the sterling pensionary obligations of the Dominion of India.

2. It is my understanding that the Government of India will pay to the Government of the United Kingdom a capital sum of £147,605,125 (which sum shall qualify under Article IV 2(v) of the Principal Agreement for a transfer from the No. 2 Account to the No. 1 Account of the Reserve Bank of India

with the Bank of England) and that, in consideration of this payment, which will be made not later than the 15th August, 1948, the Government of the United Kingdom will pay to the Government of India, during each of the financial years 1948-49 to 2007-2008, inclusive, the amount set out against that year in the annexure to this letter. The amount payable in each year will be paid in twelve equal monthly instalments on the first working day in each month. The first six monthly instalments in the financial year 1948-49 will, as a special case, be paid on the 1st September, 1948.

3. If in any year the actual disbursements of pensions, excluding payments of the commuted value of pensions and on account of disbursements of Provident Funds, exceed the amount of the annuity received by the Government of India, the Government of the United Kingdom will agree to the transfer of the amount of this excess from the No. 2 Account to the No. 1 Account. Conversely, should the actual disbursements in a year fall short of the annuity received by the Government of India the difference will be adjusted by a transfer from the No. 1 Account to the No. 2 Account.

4. Further, the Government of the United Kingdom will agree to the transfer from the No. 2 Account to the No. 1 Account, as and when required, of such sums as may be necessary to meet the charges arising out of the payments of the commuted value of pensions and disbursements on account of Provident Funds.

5. Subsection (iv) of paragraph 2 of Article IV of the Principal Agreement is modified in accordance with the understandings set out in paragraphs 3 and 4 above.

6. The administrative arrangements for the disbursement of pensions in the United Kingdom which are now in force will continue for a period of three years commencing with the 1st April, 1948, i.e. the United Kingdom Government will, on behalf of the Government of India, continue to disburse military pensions and administer the untransferred sections of the Family Pension Funds while civil pensions will be disbursed by the High Commissioner for India. The detailed arrangements for implementing this decision, so far as it relates to military pensions and Family Pension Funds, will be agreed upon between our two Governments.

7. Before the expiry of the period of three years mentioned in paragraph 6 above consultations shall take place between our two Governments as to the arrangements after that period.

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

9. I am sending a copy of this letter to the Finance Minister of the Government of Pakistan with the request that he should confirm to both of us that his Government concur in the amount of the annuity mentioned in paragraph 2 above.

Yours sincerely,

R. STAFFORD CRIPPS

The Hon. Shri R. K. Shanmukham Chetty  
Minister of Finance  
Government of India  
2, Park Street, London, W. 1

#### ANNEXURE

##### ANNUAL AMOUNTS PAYABLE BY THE GOVERNMENT OF THE UNITED KINGDOM TO THE GOVERNMENT OF INDIA

<i>Year</i>	<i>Amount £ sterling</i>	<i>Year</i>	<i>Amount £ sterling</i>
1948-49 . . . . .	6,300,000	1973-74 . . . . .	3,406,680
1949-50 . . . . .	6,222,223	1974-75 . . . . .	3,274,458
1950-51 . . . . .	6,144,445	1975-76 . . . . .	3,142,236
1951-52 . . . . .	6,066,668	1976-77 . . . . .	3,010,015
1952-53 . . . . .	5,988,890	1977-78 . . . . .	2,877,793
1953-54 . . . . .	5,876,113	1978-79 . . . . .	2,745,572
1954-55 . . . . .	5,763,336	1979-80 . . . . .	2,613,350
1955-56 . . . . .	5,650,558	1980-81 . . . . .	2,481,129
1956-57 . . . . .	5,537,781	1981-82 . . . . .	2,348,908
1957-58 . . . . .	5,425,004	1982-83 . . . . .	2,216,685
1958-59 . . . . .	5,312,226	1983-84 . . . . .	2,084,464
1959-60 . . . . .	5,199,449	1984-85 . . . . .	1,952,242
1960-61 . . . . .	5,086,672	1985-86 . . . . .	1,820,021
1961-62 . . . . .	4,973,894	1986-87 . . . . .	1,687,799
1962-63 . . . . .	4,861,116	1987-88 . . . . .	1,555,578
1963-64 . . . . .	4,728,895	1988-89 . . . . .	1,423,357
1964-65 . . . . .	4,596,673	1989-90 . . . . .	1,291,134
1965-66 . . . . .	4,464,452	1990-91 . . . . .	1,158,913
1966-67 . . . . .	4,332,230	1991-92 . . . . .	1,026,691
1967-68 . . . . .	4,200,008	1992-93 . . . . .	894,470
1968-69 . . . . .	4,067,787	1993-94 . . . . .	762,248
1969-70 . . . . .	3,935,566	1994-95 . . . . .	707,788
1970-71 . . . . .	3,803,344	1995-96 . . . . .	653,344
1971-72 . . . . .	3,671,123	1996-97 . . . . .	598,899
1972-73 . . . . .	3,538,901	1997-98 . . . . .	544,455



Year	Amount £ sterling	Year	Amount £ sterling
1998-99 . . . . .	490,011	2003-2004 . . . . .	217,791
1999-2000 . . . . .	435,567	2004-2005 . . . . .	163,347
2000-2001 . . . . .	381,123	2005-2006 . . . . .	108,902
2001-2002 . . . . .	326,679	2006-2007 . . . . .	54,400
2002-2003 . . . . .	272,235	2007-2008 . . . . .	72

## VI

*Finance Minister of India to Chancellor of the Exchequer*

2, PARK STREET  
LONDON, W. 1

9th July, 1948

My dear Chancellor,

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

[See letter 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,

R. K. SHANMUKHAM CHETTY

The Right Hon. Sir Stafford Cripps, K.C., M.P.  
Chancellor of the Exchequer  
Treasury  
Great George Street  
London, S.W. 1

## VII

*Chancellor of the Exchequer to Finance Minister of India*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
LONDON, S.W. 1

9th July, 1948

My dear Minister,

I write with reference to the arrangements that we have discussed regarding the purchase of an annuity by the Government of India from the Government of the United Kingdom for the purpose of meeting the sterling pensionary obligations of the Provinces of India.

2. It is my understanding that the Government of India will pay to the Government of the United Kingdom a capital sum of £20,516,341 (which sum shall qualify under Article IV, 2(v) of the Principal Agreement for a transfer from the No. 2 Account to the No. 1 Account of the Reserve Bank of India with the Bank of England) and that, in consideration of this payment, which will be made not later than the 15th August, 1948, the Government of the United Kingdom will pay to the Government of India, during each of the financial years 1948-49 to 2007-2008 inclusive, the amounts set out against that year in the annexure to this letter. The amount payable in each year will be paid in twelve equal monthly instalments on the first working day in each month. The first six monthly instalments in the financial year 1948-49 will, as a special case, be paid on the 1st September, 1948.

3. If in any year the actual disbursements of pensions, excluding payments of the commuted value of pensions and on account of disbursements of Provident Funds, exceed the amount of the annuity received by the Government of India the Government of the United Kingdom will agree to the transfer of the amount of this excess from the No. 2 Account to the No. 1 Account. Conversely, should the actual disbursements in a year fall short of the annuity received by the Government of India the difference will be adjusted by a transfer from the No. 1 Account to the No. 2 Account.

4. Further, the Government of the United Kingdom will agree to the transfer from the No. 2 Account to the No. 1 Account, as and when required, of such sums as may be necessary to meet the charges arising out of the commuted value of pensions and disbursements on account of Provident Funds.

5. Sub-section (iv) of paragraph 2 of Article IV of the Principal Agreement is modified in accordance with the understandings set out in paragraphs 3 and 4 above.

6. The administrative arrangements for the disbursement of pensions in the United Kingdom which are now in force will continue for a period of three years commencing with the 1st April, 1948.

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

Yours sincerely,

R. STAFFORD CRIPPS

The Hon. Shri R. K. Shanmukham Chetty  
Minister of Finance  
Government of India  
2, Park Street, London, W. 1

## ANNEXURE

ANNUAL AMOUNTS PAYABLE BY THE GOVERNMENT OF THE UNITED KINGDOM  
TO THE GOVERNMENT OF INDIA

<i>Year</i>	<i>Amount £ sterling</i>	<i>Year</i>	<i>Amount £ sterling</i>
1948-49 . . . . .	950,000	1978-79 . . . . .	362,780
1949-50 . . . . .	933,333	1979-80 . . . . .	342,225
1950-51 . . . . .	916,667	1980-81 . . . . .	321,669
1951-52 . . . . .	900,000	1981-82 . . . . .	301,113
1952-53 . . . . .	883,334	1982-83 . . . . .	280,559
1953-54 . . . . .	864,167	1983-84 . . . . .	260,003
1954-55 . . . . .	845,000	1984-85 . . . . .	239,448
1955-56 . . . . .	825,834	1985-86 . . . . .	218,892
1956-57 . . . . .	806,667	1986-87 . . . . .	198,337
1957-58 . . . . .	787,500	1987-88 . . . . .	177,781
1958-59 . . . . .	768,334	1988-89 . . . . .	157,225
1959-60 . . . . .	749,167	1989-90 . . . . .	136,671
1960-61 . . . . .	730,000	1990-91 . . . . .	116,115
1961-62 . . . . .	710,834	1991-92 . . . . .	95,560
1962-63 . . . . .	691,668	1992-93 . . . . .	75,004
1963-64 . . . . .	671,112	1993-94 . . . . .	54,449
1964-65 . . . . .	650,557	1994-95 . . . . .	50,556
1965-66 . . . . .	630,001	1995-96 . . . . .	46,667
1966-67 . . . . .	609,446	1996-97 . . . . .	42,779
1967-68 . . . . .	588,891	1997-98 . . . . .	38,890
1968-69 . . . . .	568,335	1998-99 . . . . .	35,001
1969-70 . . . . .	547,779	1999-2000 . . . . .	31,112
1970-71 . . . . .	527,224	2000-01 . . . . .	27,223
1971-72 . . . . .	506,668	2001-02 . . . . .	23,334
1972-73 . . . . .	486,113	2002-03 . . . . .	19,445
1973-74 . . . . .	465,557	2003-04 . . . . .	15,556
1974-75 . . . . .	445,002	2004-05 . . . . .	11,667
1975-76 . . . . .	424,447	2005-06 . . . . .	7,779
1976-77 . . . . .	403,891	2006-07 . . . . .	3,800
1977-78 . . . . .	383,336	2007-08 . . . . .	91

## VIII

*Finance Minister of India to Chancellor of the Exchequer*

2, PARK STREET  
LONDON, W. 1

9th July, 1948

My dear Chancellor,

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

[See letter 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,

R. K. SHANMUKHAM CHETTY

The Rt. Hon. Sir Stafford Cripps, K.C., M.P.  
Chancellor of the Exchequer  
Treasury  
Great George Street  
London, S.W. 1

## IX

*Chancellor of the Exchequer to Finance Minister of India*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
LONDON, S.W. 1

9th July, 1948

My dear Minister,

Arising out of the restriction which you have agreed to place on India's drawings of hard currencies from the Central Reserves of the Sterling Area, you expressed anxiety about India's difficulties in obtaining certain commodities which hitherto had been supplied to her from within the sterling area or from soft currency countries, and asked that the United Kingdom should help India in meeting such requirements either from her traditional sources of supply or from elsewhere for payment in sterling.

2. I write to assure you that the Government of the United Kingdom appreciates your problem and will do its best to help. Representatives of our supply departments and your officers have already discussed the ways in which

the United Kingdom can assist as regards India's requirements of non-ferrous metals, cotton and plywood, to which commodities you drew my special attention.

3. You also expressed anxiety at the possibility that India might have to pay more dollars for her imports of petrol, oil and lubricants in the event of an increase in the proportion of petrol, oil and lubricants supplied from dollar sources as compared with previous years. I am advised that this is most unlikely, but should such a situation develop my Government will be glad to enter into discussions with yours with a view to finding a solution.

Yours sincerely,

R. STAFFORD CRIPPS

The Honourable Shri R. K. Shanmukham Chetty  
Minister of Finance  
Government of India  
2, Park Street, London, W. 1

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup>  
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND  
NORTHERN IRELAND AND INDIA FURTHER EXTENDING  
THE UNDERSTANDING REACHED BETWEEN THE TWO  
GOVERNMENTS BY AN EXCHANGE OF NOTES OF 14 AUGUST  
1947<sup>2</sup> REGARDING THE SILVER REDEMPTION RESERVE, THE  
RATE OF INTEREST ON STERLING BALANCES, ETC. LONDON,  
9 JULY 1948

---

I

*Sir Henry Wilson Smith to Mr. A. K. Chanda*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
S.W. 1

9th July, 1948

Dear Mr. Chanda,

On the conclusion of the discussions leading up to the Exchange of Letters extending the Financial Agreement of the 14th August, 1947<sup>2</sup> which have been signed to-day, I am writing to place on record the understanding which has been reached with regard to certain matters agreed upon in London in July and August, 1947, between Sir Wilfrid Eady and Mr. Narahari Rao. These are recorded in letters exchanged on the 14th August, 1947,<sup>2</sup> regarding the Silver Redemption Reserve, the rate of interest to be earned on the sterling balances, and Indian private sterling balances. It is understood between us that the arrangements set out in those letters will remain in force for the extended period of the Agreement.

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

Yours sincerely,

(Signed) H. WILSON SMITH

A. K. Chanda, Esq., O.B.E.  
Indian Financial Delegation  
2, Park Street  
W. 1

---

<sup>1</sup> Came into force on 9 July 1948 by the exchange of the said letters.

<sup>2</sup> United Nations, *Treaty Series*, Vol. 11, p. 371.

## II

*Mr. A. K. Chanda to Sir Henry Wilson Smith*

INDIAN FINANCIAL DELEGATION  
2, PARK STREET  
LONDON, W. 1

9th July, 1948

Dear Sir Henry Wilson Smith,

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

[*See letter I*]

2. I have pleasure in confirming that the understanding of the Government of the United Kingdom, as set out in that letter, is accepted by the Government of India.

Yours sincerely,

(*Signed*) A. K. CHANDA

Sir Henry Wilson Smith, K.B.E.  
Treasury  
Great George Street, S.W. 1

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup>  
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND  
NORTHERN IRELAND AND INDIA REGARDING THE INDIAN  
DEFENCE EXPENDITURE PLAN. LONDON, 9 JULY 1948

---

I

*Sir Henry Wilson Smith to Mr. A. K. Chanda*

TREASURY CHAMBERS  
GREAT GEORGE STREET  
S.W. 1

9th July, 1948

Dear Mr. Chanda,

Following the discussions between our representatives and those of India and Pakistan it is desired to put on formal record our agreement that the sum remaining due to the Governments of India and Pakistan under the Indian Defence Expenditure Plan shall be fixed at £55 million. Out of this amount, a sum of £8,951,250 will be paid by H.M.G. to the Government of Pakistan and the balance to the Government of India. It is understood that the final adjustment of terminal benefits, excluded from the above settlement, will be effected in the 1947-48 accounts, and any amount due from the United Kingdom Government will be payable to the two Dominions in such proportions as may be communicated to the Government of the United Kingdom by the Governments of India and Pakistan.

2. The payment mentioned above will be in full and final settlement between the Government of the United Kingdom on the one hand and the Governments of India and Pakistan on the other of all matters arising out of the operation of the Defence Expenditure Plan except in respect of the adjustment of terminal benefits.

3. I should be glad if you would confirm the position as stated above.

Yours sincerely,

(Signed) H. WILSON SMITH

A. K. Chanda, Esq., O.B.E.  
Indian Financial Delegation  
2, Park Street, W. 1

---

<sup>1</sup> Came into force on 9 July 1948 by the exchange of the said letters.



## II

*Mr. A. K. Chanda to Sir Henry Wilson Smith*

INDIAN FINANCIAL DELEGATION  
2, PARK STREET, W. 1

9th July, 1948

Dear Sir Henry Wilson Smith,

I have to acknowledge receipt of your letter dated the 9th July reading as follows :—

[*See letter I*]

2. I have pleasure in confirming that the position as set out in that letter is accepted by the Government of India.

Yours sincerely,

(*Signed*) A. K. CHANDA

Sir Henry Wilson Smith, K.B.E.

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT<sup>1</sup>  
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND  
NORTHERN IRELAND AND INDIA REGARDING THE EX-  
TENDED APPLICATION OF THE FINANCIAL AGREEMENT OF  
14 AUGUST 1947.<sup>2</sup> LONDON, 1 AUGUST 1949

---

I

*President of the Board of Trade to High Commissioner for India*

BOARD OF TRADE  
I.C.I. HOUSE  
MILLBANK, S.W. 1

1st August, 1949

My dear High Commissioner,

In the Chancellor's absence from London I write to set out the agreement reached between our two Governments in the financial discussions which have recently taken place in London between the Chancellor of the Exchequer and the Indian Minister of Finance :

1. Paragraph 2 of the Chancellor's letter to the Hon. Mr. Chetty dated 9th July, 1948,<sup>3</sup> extending the Principal Agreement (as defined in that letter) made no provision for transfers from the No. 2 to the No. 1 Account during the period 1st July, 1948, to 30th June, 1949. It has not, however, proved possible to adhere to the terms of this paragraph. As was provided for in paragraph 6 of the letter, consultation took place between our Governments when it became apparent that such transfers would, in fact, be needed during this period. It was agreed between our Governments that, in the circumstances, the Government of India should be free to anticipate the transfers which, under the terms of the Agreement, they were entitled to claim during the periods 1st July, 1949, to 30th June, 1950, and 1st July, 1950, to 30th June, 1951, and, if necessary, to obtain such additional transfers as might be necessary to maintain the balance on the No. 1 Account at a level of £30 million (the working balance agreed upon in Article V (1) of the Principal Agreement). In the event the Government of India drew £81 million under this arrangement.

---

<sup>1</sup> Came into force on 1 August 1949 by the exchange of the said letters and became effective from 1 July 1949.

<sup>2</sup> United Nations, *Treaty Series*, Vol. 11, p. 371.

<sup>3</sup> See p. 88 of this volume.

2. In view of the unexpectedly heavy calls on India's available resources of sterling, the Government of India took action earlier this year to achieve as soon as practicable a substantial curtailment of imports into India in order to reduce India's deficit on current trade and payments. It has now been agreed between our two Governments that, for the remaining period of the Agreement (apart from expenditure arising out of the exceptional circumstances referred to in paragraph 3 below), the deficit with all countries should be no larger than is consistent with transfers of up to £50 million per annum from the No. 2 Account.

3. It is recognised that the transition to the lower level of imports contemplated, including the liquidation of outstanding commitments, in such a way as to minimise the dislocation of trading relations must inevitably take some time and involve additional transfers from the No. 2 Account. The amount of these transfers cannot be estimated at present in the absence of full information on outstanding orders. Both our Governments are agreed, however, that they will be kept to the lowest level consistent with an orderly adjustment of India's imports to the level indicated in paragraph 2 above.

4. It has therefore been agreed between our two Governments that there shall be transferred from the No. 2 to the No. 1 Account :—

(a) a sum not exceeding £50 million in the period 1st July, 1949, to 30th June, 1950, and a sum not exceeding £50 million in the period 1st July, 1950, to 30th June, 1951; transfers to take place as may be necessary in order to maintain the No. 1 Account at a level of £30 million;

(b) such additional transfers as may be necessary to maintain the No. 1 Account at a level of £30 million during the period in which the transition referred to in paragraph 3 above is being effected. It is intended that this period will be completed, at the latest, by 30th June, 1950.

5. If, at any time during the period 1st July, 1949, to 30th June, 1950, transfers from the No. 2 Account to the No. 1 Account appear to be taking place at a rate higher than is consonant with a transfer for the year 1st July, 1949, to 30th June, 1950 (over and above the £50 million now agreed under paragraph 4 (a) above) of more than £50 million, which is the best estimate that can be made at present of the additional deficit involved, either Government will have the right to ask that the position should be discussed between them. It would in any event be reviewed at the next meeting of the Joint Consultative Committee which may be expected to take place at about the end of the calendar year 1949.

6. Transfers between the No. 1 and No. 2 Accounts which may take place under Article IV (2) and Article VIII of the Principal Agreement are excluded from the computations to be made under the arrangements set out in paragraphs 4 and 5 above.

7. The arrangements set out in paragraphs 4 and 5 above will replace the provisions of paragraph 3 of the Chancellor's letter of the 9th July, 1948.

8. Following the recent Meeting of the Commonwealth Finance Ministers, I understand that the Government of India, in common with the other Commonwealth Governments concerned, is now engaged in considering the steps recommended by the Meeting to check the continuing heavy drain on the central reserves of the sterling area, and we have agreed that the need for the further consultations as to the means of meeting the deficit in India's receipts from and payments to "hard currency" countries, contemplated in paragraphs 4 and 5 of the Chancellor's letter of 9th July, 1948, can be reconsidered in the light of the outcome of these deliberations.

9. Paragraphs 1, 6 and 7 of the Chancellor's letter of the 9th July, 1948, remain in force.

I should be grateful to have your confirmation that this letter correctly sets out the understanding reached between our Governments.

Yours sincerely,

Harold WILSON

His Excellency Mr. V. K. Krishna Menon  
High Commissioner for India  
India House  
Aldwych, W.C. 2

## II

*High Commissioner for India to President of the Board of Trade*

INDIA HOUSE  
ALDWYCH, W.C. 2

1st August, 1949

My dear President,

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

[*See letter I*]

2. I have pleasure in confirming that the letter correctly sets out the understanding reached between our Governments.

Yours sincerely,

V. K. KRISHNA MENON

The Rt. Hon. Harold Wilson, O.B.E., M.P.  
President of the Board of Trade  
I.C.I. House  
Millbank, S.W. 1

---