

UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND
and
PAKISTAN

Exchange of letters constituting an agreement extending the Financial Agreement of 14 August 1947. Karachi, 21 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 Silver Redemption Reserve, the rate of interest on the sterling balances, etc. Karachi, 21 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 Pakistan. London, 14 July 1948

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

Exchange of letters constituting an agreement regarding Pakistan's net drawing of "hard currencies". London, 14 July 1948

Exchange of letters constituting an agreement regarding the extended application of the Financial Agreement of 14 August 1947. London, 5 August 1949

Exchange of letters constituting an agreement regarding the extended application of the Financial Agreement of 14 August 1947. London, 27 July 1950

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No. 1797. EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹ BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND PAKISTAN EXTENDING THE FINANCIAL AGREEMENT OF 14 AUGUST 1947.² KARACHI, 21 FEBRUARY 1948

I

Sir J. Raisman to Mr. Abdul Qadir

UNITED KINGDOM FINANCIAL DELEGATION

21st February, 1948

Dear Mr. Abdul Qadir,

The consultations have taken place which are provided for in Article XI of the Agreement signed in London on 14th August, 1947² (hereinafter called "the principal Agreement") between the Government of the United Kingdom and the Government of India before partition, which by virtue of Article X (a) of the principal Agreement, constitutes an Agreement between the Government of the United Kingdom and the Government of Pakistan. As a result of these consultations the following arrangements have been agreed upon between our two Governments for the extension of the principal Agreement.

1. The Government of Pakistan has taken note that the paragraphs annexed to this letter are contained in an exchange of letters between the Government of the United Kingdom and the Government of India to provide for the extension of the principal Agreement in relation to the Dominion of India.
2. 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 21st February, 1948, but shall have effect in all respects as from 1st January 1948.
3. The extension now agreed upon shall relate only to the Dominion of Pakistan and Article X (a) of the principal Agreement shall be interpreted accordingly.

¹ Came into force on 21 February 1948, with retroactive effect from 1 January 1948, by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

4. There shall be transferred from the No. 2 Account to the Pakistan Account a sum of £10,000,000 as a working balance to be available for the purposes mentioned in Article V of the principal Agreement, which shall be modified accordingly.
5. In addition to the transfer provided in paragraph 4 of this letter, there shall be transferred from the No. 2 Account to the Pakistan Account the sum of £6,000,000.
6. The Government of Pakistan 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 Pakistan's essential needs. In pursuance of this policy, the Government of Pakistan 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 by more than £3,300,000. 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. In this letter the expression " the Pakistan account " shall mean the account to be opened by the Reserve Bank of India for the conduct of current transactions relating to Pakistan as defined in paragraph 2 (a) of the annex to this letter.
9. 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.
10. 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 2 of this letter, of the principal Agreement.

Yours sincerely,

(Signed) Jeremy RAISMAN

Abdul Qadir, Esq.
Ministry of Finance
Karachi

UNITED KINGDOM FINANCIAL DELEGATION

*Extract from Letters Exchanged between Sir Jeremy Raisman
and Mr. V. Narahari Rao on 15th February, 1948*

(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.

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 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.

*Extract from the Minutes of the Partition Council Meeting
held on 1st December, 1947¹*

Case No. PC/218/20/47

STERLING ASSETS OF THE RESERVE BANK OF INDIA

II

Mr. Abdul Qadir to Sir J. Raisman

GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCE
KARACHI

21st 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) ABDUL QADIR

Sir Jeremy Raisman, G.C.I.E., K.C.S.I.
Leader U. K. Financial Delegation to Pakistan
Karachi

¹ See p. 78 of this volume.

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹ BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND PAKISTAN EXTENDING THE UNDERSTANDING REACHED BETWEEN THE TWO GOVERNMENTS BY AN EXCHANGE OF NOTES OF 14 AUGUST 1947² REGARDING THE SILVER REDEMPTION RESERVE, THE RATE OF INTEREST ON THE STERLING BALANCES, ETC. KARACHI, 21 FEBRUARY 1948

I

Sir Jeremy Raisman to Mr. Abdul Qadir

UNITED KINGDOM FINANCIAL DELEGATION

21st February, 1948

Dear Mr. Abdul Qadir,

On the conclusion of the discussions leading up to the exchange of letters³ extending the Financial Agreement of 14th August 1947 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 Pakistan's sterling balances.

Certain matters agreed in London in July and August 1947 between Mr. V. Narahari Rao (negotiating on behalf of the Government of India before partition) and Sir Wilfrid Eady are recorded in the three letters² which were exchanged on 14th August 1947 regarding 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 and are applicable *mutatis mutandis* to Pakistan for the period of the extended Agreement.

¹ Came into force on 21 February 1948 by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

³ See p. 130 of this volume.

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

Abdul Qadir, Esq.
Ministry of Finance
Karachi

II

GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCE

Karachi the 21st 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.

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) Abdul QADIR

Sir Jeremy Raisman, G.C.I.E., K.C.S.I.
Leader, U.K. Financial Delegation to Pakistan
Karachi

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND AND PAKISTAN EXTENDING THE
FINANCIAL AGREEMENT OF 14 AUGUST 1947² 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 PAKISTAN. LONDON, 14 JULY 1948

I

Chancellor of the Exchequer to Finance Minister of Pakistan

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

14th July, 1948

My dear Minister,

As the result of the consultation provided for in paragraph 8 of Sir Jeremy Raisman's letter of the 21st February, 1948³ to Mr. Adbul Qadir which extended the Agreement signed in London on the 14th August, 1947² (hereinafter called the "Principal Agreement") between the Government of the United Kingdom and the Government of Pakistan, 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, 1949.

2. Of the balance available in the Pakistan No. 1 Account on 30th June, 1948 the sum of £2 millions shall be regarded as an addition to the working balance referred to in paragraph 4 of Sir Jeremy Raisman's letter, thereby increasing that balance to £12 millions.

¹ Came into force on 14 July 1948, with retroactive effect from 1 July 1948, by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

³ See p. 130 of this volume.

3. There shall be transferred from the No. 2 of the No. 1 Account of the State Bank of Pakistan in the period 1st July, 1948 to 30th June, 1949 :—

(a) the sum of £5 millions forthwith, and

(b) further sums, not exceeding £5 millions, for the purpose of meeting Pakistan's external expenditure on special requirements (including purchases of goods and execution of capital projects) for the resettlement and rehabilitation of refugees. These special transfers shall be made as and when required by the Government of Pakistan for these purposes.

4. The Government of Pakistan 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 £5 millions. This figure for the net drawings on the central reserves has been agreed in the light of Pakistan's needs for supplies necessary for the development of her economy and, in particular, of her productive capacity.

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 £750,000 of any surplus earned by Pakistan with Japan shall be taken into account for the purpose of determining Pakistan's hard currency earnings, and

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

6. 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 Agreements.

7. Such consultation shall have particular regard to the total transfers of sterling required from the No. 2 to the No. 1 Account for the ensuing period or

periods, but in order to enable Pakistan to prepare plans in advance the Government of the United Kingdom undertakes that in addition to the balances then existing on the No. 1 Account a further sum of at least £5 millions shall be transferred in the 12 months 1st July, 1949 to 30th June, 1950, and a further £5 millions in the ensuing 12 months. Further, any part of the special transfer referred to in paragraph 3 (b) above which remains unspent on 30th June, 1949 shall be available for the same purpose until 30th June, 1951. Without prejudice to these agreed arrangements the question of Pakistan's requirements in respect of refugees may be raised again if desired, in the course of the further consultation envisaged under paragraph 6 above.

8. 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 21st February, 1948 and by this letter.

I should be grateful to have 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 Honorable Mr. Ghulam Mohammad
Finance Minister
Government of Pakistan
9, South Street
London, W. 1

II

Finance Minister of Pakistan to the Chancellor of the Exchequer

9, SOUTH STREET
LONDON, W.1

14th July, 1948

My dear Chancellor,

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

[See letter I]

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,

Ghulam MOHAMMAD

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

III

Chancellor of the Exchequer to Finance Minister of Pakistan

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

14th 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 the 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 the 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 India that this is also the understanding of your Government.

4. I am sending a similar letter to the Finance Minister of India 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 Honorable Mr. Ghulam Mohammad
Finance Minister
Government of Pakistan
9, South Street, London, W. 1

IV

Finance Minister of Pakistan to Chancellor of the Exchequer

9, SOUTH STREET
LONDON, W. 1

14th 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 India.

Yours sincerely,

Ghulam MOHAMMAD

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

V

Chancellor of the Exchequer to Finance Minister of Pakistan

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

14th 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 Pakistan from the Government of the United Kingdom for the purpose of meeting the sterling pensionary obligations of the Dominion of Pakistan and of the Provinces of Pakistan.

2. It is my understanding that the Government of Pakistan will pay to the Government of the United Kingdom a capital sum £8,166,848 (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 State Bank of Pakistan with the Bank of England) and that, in consideration of this payment, which will be made not later than the 15th August, 1948, the United Kingdom Government will pay to the Government of Pakistan during each of the financial years 1948-49 to 1997-98, 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 Pakistan the United Kingdom Government 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 Pakistan the difference will be adjusted by a transfer from the No. 1 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. 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 Honourable Mr. Ghulam Mohammad
Finance Minister
Government of Pakistan
9, South Street, London, W. 1

ANNEXURE

ANNUAL AMOUNTS TO BE PROVIDED FOR THE PURPOSE OF MEETING THE STERLING PENSIONARY OBLIGATIONS OF THE DOMINION OF PAKISTAN AND OF THE PROVINCES OF PAKISTAN

Payments in Year

<i>Year of payment</i>	£	<i>Year of payment</i>	£
1948-49	375,000	1973-74	187,500
1949-50	367,500	1974-75	180,000
1950-51	360,000	1975-76	172,500
1951-52	352,500	1976-77	165,000
1952-53	345,000	1977-78	157,500
1953-54	337,500	1978-79	150,000
1954-55	330,000	1979-80	142,500
1955-56	322,500	1980-81	135,000
1956-57	315,000	1981-82	127,500
1957-58	307,500	1982-83	120,000
1958-59	300,000	1983-84	112,500
1959-60	292,500	1984-85	105,000
1960-61	285,000	1985-86	97,500
1961-62	277,500	1986-87	90,000
1962-63	270,000	1987-88	82,500
1963-64	262,500	1988-89	75,000
1964-65	255,000	1989-90	67,500
1965-66	247,500	1990-91	60,000
1966-67	240,000	1991-92	52,500
1967-68	232,500	1992-93	45,000
1968-69	225,000	1993-94	37,500
1969-70	217,500	1994-95	30,000
1970-71	210,000	1995-96	22,500
1971-72	202,500	1996-97	15,000
1972-73	195,000	1997-98	7,500

VI

Finance Minister of Pakistan to Chancellor of the Exchequer

9, SOUTH STREET
LONDON, W. 1

14th 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 the Government of the United Kingdom, as set out in that letter, is accepted by the Government of Pakistan.

Yours sincerely,

Ghulam MOHAMMAD

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

VII

Chancellor of the Exchequer to Finance Minister of Pakistan

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

14th July, 1948

My dear Minister,

I am enclosing a copy of the letter which I sent to the Finance Minister of India concerning the sterling pensions obligations of the Dominion of India.

I should be glad if you would confirm that your Government concurs in the amount of the annuity mentioned in paragraph 2 of that letter.

Yours sincerely,

R. STAFFORD CRIPPS

The Honourable Mr. Ghulam Mohammad
Finance Minister
Government of Pakistan
9, South Street, London, W. 1

ENCLOSURE

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.

[See p. 96 of this volume]

Yours sincerely,

(Signed) R. STAFFORD CRIPPS

The Honble. 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

[See p. 100 of this volume]

VIII

Finance Minister of Pakistan to Chancellor of the Exchequer

9, SOUTH STREET
LONDON, W. 1

14th July, 1948

My dear Chancellor,

I have to acknowledge receipt of your letter of today's date enclosing a copy of your letter of 9th July to the Finance Minister of India, reading as follows :—

[See annexure to letter VII]

I have pleasure in confirming that my Government concurs in the amount of the annuity mentioned in paragraph 2 of that letter.

Yours sincerely,

Ghulam MOHAMMAD

The Right Honourable Sir Stafford Cripps, K.C., M.P.
Chancellor of the Exchequer

IX

Chancellor of the Exchequer to Finance Minister of Pakistan

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

14th July, 1948

My dear Minister,

You have emphasised to me that Pakistan is in a special position in view of her need to develop her economy for the first time as an independent state. I agree that this is so and that the United Kingdom should do what it can to help Pakistan in this task. You have also expressed anxiety about Pakistan's difficulties in obtaining certain commodities which are essential both for her current needs and for her economic developments, which she is anxious to procure as far as possible from within the sterling area or from soft currency countries.

Members of your Delegation have had discussions during the past fortnight with our departmental representatives about the goods in which you are particularly interested and we have done our best to inform you of the extent of the assistance which we can give you in present circumstances. I should like to assure you that the Government of the United Kingdom appreciates your problems and, within the limits of what is possible, will do its best to help.

Yours sincerely,

R. STAFFORD CRIPPS

The Honourable Mr. Ghulam Mohammad
Finance Minister
Government of Pakistan
9, South Street, London, W. 1

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND AND PAKISTAN FURTHER EXTENDING
THE UNDERSTANDING REACHED BETWEEN THE TWO
GOVERNMENTS BY AN EXCHANGE OF NOTES OF 14 AUGUST
1947² REGARDING THE SILVER REDEMPTION RESERVE, THE
RATE OF INTEREST ON STERLING BALANCES, ETC. LON-
DON, 14 JULY 1948

I

Sir Henry Wilson Smith to Mr. M. Shoaib

14th July 1938³

Dear Mr. Shoaib,

On the conclusion of the discussions leading up to the Exchange of Letters extending the Financial Agreement of the 14th August 1947 which have been signed today,⁴ 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 letters² exchanged on the 14th August 1947 regarding the Silver Redemption Reserve, the rate of interest to be earned on the sterling balances, and private sterling balances. It is understood between us that the arrangements set out in these letters will remain in force for the three years ending 30th June 1951.

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

Yours sincerely,

(Signed) H. WILSON SMITH

M. Shoaib, Esq.
Pakistan Financial Delegation
9 South Street, W. 1

¹ Came into force on 14 July 1948 by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

³ The date should read " 1948 ". (Note of the Secretariat.)

⁴ See p. 142 of this volume.

II

Mr. M. Shoaib to Sir Henry Wilson Smith

14th July, 1948

Dear Sir Henry Wilson Smith,

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 understanding of the Government of the United Kingdom, as set out in that letter, is accepted by the Government of Pakistan.

Yours sincerely,

(Signed) M. SHOAIB

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

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND AND PAKISTAN REGARDING PAKI-
STAN'S NET DRAWINGS OF "HARD CURRENCIES". LON-
DON, 14 JULY 1948

I

Sir Henry Wilson Smith to Mr. M. Shoaib

14th July, 1948

Dear Mr. Shoaib,

I refer to Sir Jeremy Raisman's letter to Mr. Abdul Qadir dated 19th February 1948 with which was enclosed a Memorandum entitled "How to Watch Pakistan's Hard Currency Receipt and Payments". We agreed that the procedure outlined in that Memorandum should be adapted to the needs of the period immediately ahead and that the Bank of England and the State Bank of Pakistan should be asked to carry the procedure through as before.

We have agreed that in the period 1st July to 31st December 1948 Pakistan's net drawings of "hard currencies" from the central reserves shall be limited to the equivalent of

(a) one-twelfth per month of the total of £5 millions referred to in paragraph 4 of the Chancellor's letter of today's date² plus

(b) a total of not more than one-quarter at any time during this period of the £5 millions referred to above.

As from 1st January 1949 any further net drawings shall be limited in any one month to one-sixth of the balance of £5 millions undrawn at 31st December 1948 provided that amounts undrawn in any particular month may be carried forward for use in any subsequent month prior to 30th June 1949.

I should be glad if you would confirm that your understanding of this matter is the same as mine.

Yours sincerely,

(Signed) H. WILSON SMITH

M. Shoaib, Esq.
Pakistan Financial Delegation
9 South Street, W. 1

¹ Came into force on 14 July 1948, with retroactive effect from 1 July 1948, by the exchange of the said letters.

² See p. 142 of this volume.

II

Mr. M. Shoaib to Sir Henry Wilson Smith

DELEGATION OF PAKISTAN

14th July, 1948

Dear Sir Henry Wilson Smith,

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

[*See letter I*]

I have pleasure in confirming that your understanding of the matter is the same as mine.

Yours sincerely,

(*Signed*) M. SHOAIB

Sir Henry Wilson Smith, K.B.E.

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND AND PAKISTAN REGARDING THE
EXTENDED APPLICATION OF THE FINANCIAL AGREEMENT
OF 14 AUGUST 1947². LONDON, 5 AUGUST 1949

I

Economic Secretary to the Treasury to Finance Minister of Pakistan

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

5th August, 1949

My dear Minister,

I write to set out the Agreement reached between our two Governments as a result of the consultation which has recently taken place between the Chancellor of the Exchequer and yourself, as provided for in paragraph 6 of the Chancellor's letter of the 14th July, 1948,³ to yourself, which extended the Agreement signed in London on the 14th August, 1947² (hereinafter called "the Principal Agreement") :—

1. The Principal Agreement, as modified by Sir Jeremy Raisman's letter of the 21st February, 1948,⁴ to Mr. Abdul Qadir and by the Chancellor's letter to yourself of 14th July, 1948,² and as further modified by this letter shall be extended to the 30th June, 1950.

2. There shall be transferred from the No. 2 to the No. 1 Account of the State Bank of Pakistan for the period 1st July, 1949, to 30th June, 1950 :—

(a) A sum not exceeding £12 millions; transfers to take place as and when requested by the State Bank of Pakistan.

(b) Further sums not exceeding £5 million for the purpose of meeting Pakistan's external expenditure on special requirements (including purchases of goods and execution of capital projects) for the resettlement

¹ Came into force on 5 August 1949, with retroactive effect from 1 July 1949, by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

³ See p. 142 of this volume.

⁴ See p. 130 of this volume.

and rehabilitation of refugees. These special transfers shall be made as and when required by the Government of Pakistan for these purposes.

3. The United Kingdom Government has also taken note that the Government of Pakistan might find it necessary to ask for additional transfers from No. 2 to No. 1 Account in order to meet abnormal expenditure which may have to be incurred during the period 1st July, 1949, to 30th June, 1950, on the import of food grains, and agrees to consider such a request if it is made.

4. Following the recent Meeting of the Commonwealth Finance Ministers, I understand that the Government of Pakistan, 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 Pakistan's receipts from and payments to "hard currency" countries, contemplated in paragraphs 4, 5 and 6 of the Chancellor's letter of 14th July, 1948, can be reconsidered in the light of the outcome of these deliberations.

5. In any event, 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 Agreements.

6. Such consultation shall have particular regard to the total transfer of sterling required from the No. 2 to the No. 1 Account for the twelve months 1st July, 1950, to the 30th June, 1951, but in order to enable Pakistan to prepare plans in advance the Government of the United Kingdom undertakes that, in addition to the balances existing on the No. 1 Account, a further sum of at least £5 million shall be transferred in this period. Further, any of the special transfer referred to in paragraph 2 (b) which remains unspent on 30th June, 1950, shall be available for the same purpose until 30th June, 1951.

7. 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 21st February, 1948, by the Chancellor's letter of the 14th July, 1948, and by this letter.

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

Douglas JAY

The Hon. Mr. Ghulam Mahommad
Finance Minister of Pakistan

II

Finance Minister of Pakistan to Economic Secretary to the Treasury

DELEGATION OF PAKISTAN
LONDON

5th August, 1949

My dear Economic Secretary,

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

[*See letter I*]

I confirm that this letter correctly sets out the understanding reached between our two Governments 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,

Ghulam MAHOMMAD

The Economic Secretary to the Treasury
Treasury Chambers
Great George Street
London, S.W. 1

EXCHANGE OF LETTERS CONSTITUTING AN AGREEMENT¹
BETWEEN THE UNITED KINGDOM OF GREAT BRITAIN AND
NORTHERN IRELAND AND PAKISTAN REGARDING THE
EXTENDED APPLICATION OF THE FINANCIAL AGREEMENT
OF 14 AUGUST 1947.² LONDON, 27 JULY 1950

I

Chancellor of the Exchequer to Finance Minister of Pakistan

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

27th July, 1950

My dear Minister,

As the result of the consultation provided for in paragraph 5 of the letter of the 5th August, 1949 to you from Mr. Douglas Jay,³ which further extended the Agreement signed in London on the 14th August, 1947² (hereinafter called the "Principal Agreement") between the Government of the United Kingdom and the Government of Pakistan, 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 of the 21st February, 1948⁴ to Mr. Abdul Qadir, by my letter to you of the 14th July, 1948,⁵ and by Mr. Douglas Jay's letter to you of the 5th August, 1949,³ and as further modified by this letter, shall be extended to the 30th June, 1951.

2. The Exchange of Letters³ extending the Principal Agreement to the 30th June, 1950, provided for the transfer of £17 million (including £5 million for refugees) on the assumption that Pakistan would receive some No. 1 Account sterling from her normal trade with India. This assumption was not fulfilled. After a review of the position by the Pakistan and the United Kingdom Governments, arrangements were made for temporary transfers to take place from the No. 2 Account of the State Bank of Pakistan in addition to the transfers

¹ Came into force on 27 July 1950, with retroactive effect from 1 July 1950, by the exchange of the said letters.

² United Nations, *Treaty Series*, Vol. 11, p. 371.

³ See p. 170 of this volume.

⁴ See p. 130 of this volume.

⁵ See p. 142 of this volume.

agreed upon in Paragraph 2 of Mr. Douglas Jay's letter of the 5th August, 1949. By the 30th June, 1950, these temporary transfers amounted to £14 million. We have agreed that these transfers should now be regarded as permanent transfers; but any sterling, which may be paid by the Reserve Bank of India to the No. 1 Account of the State Bank of Pakistan with the Bank of England in respect of the settlement of transactions covered by the Payments Agreement of August, 1949 between Pakistan and India, shall be dealt with in the following manner :—

(i) an amount not exceeding £5 million to be transferred from the No. 1 to the No. 2 Account of the State Bank of Pakistan;

(ii) thereafter an amount not exceeding £5 million to be used (if necessary) to bring the working balance in the No. 1 Account of the State Bank of Pakistan up to £12 million;

(iii) the remainder, if any, to be transferred from the No. 1 to the No. 2 Account of the State Bank of Pakistan, provided that the total transfers from the No. 1 to the No. 2 Account under the terms of this paragraph shall not exceed £14 million.

3. There shall be transferred from the No. 2 to the No. 1 Account of the State Bank of Pakistan for the period 1st July, 1950 to the 30th June, 1951 :—

(a) A sum not exceeding £15m.; transfers to take place as and when requested by the State Bank of Pakistan.

(b) Further sums not exceeding £2¹/₂m. for the purpose of meeting Pakistan's exceptional requirements for foreign exchange up to the end of September, 1950, arising from the present state of trade and payments with India; transfers shall be made as and when requested by the State Bank of Pakistan.

4. The Government of Pakistan shall have a right to ask for a review of the arrangements set out in Paragraph 3 (b) above at any time if by the end of September, 1950, it has not been found possible to make arrangements which would enable trade and payments to flow freely between India and Pakistan.

5. In view of the present arrangements for consultation between Commonwealth Governments as regards "hard currency" expenditure, we have agreed that there is no need to reconsider (as was contemplated in Paragraph 4 of Mr. Douglas Jay's letter of 5th August, 1949) the means of meeting the deficit in Pakistan's receipts from and payments to "hard currency" countries.

6. 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 Agreements.

7. 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 21st February, 1948 and as further modified by my letter of the 14th July, 1948, by Mr. Douglas Jay's letter of 5th August, 1949 and by this letter.

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

(Signed) R. STAFFORD CRIPPS

The Hon. Mr. Ghulam Mohammed
Finance Minister of Pakistan

II

Finance Minister of Pakistan to Chancellor of the Exchequer

DELEGATION OF PAKISTAN
LONDON

27th July, 1950

My dear Chancellor,

I have to acknowledge receipt of your letter of to-day'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) Ghulam MOHAMMED

The Rt. Hon. Sir Stafford Cripps, K.C., M.P.
Chancellor of the Exchequer