

#### IV. Monetary Trends

15. The trend towards an increased rate of expansion of money supply noticed in 1959 became more pronounced in 1960. The annual increases in money supply over the last five years have been as follows:

	Rs. crores	Percentage increase
1956	131	6.4
1957	96	4.4
1958	75	3.3
1959	171	7.3
1960	217	8.7

The major factor accounting for this change is that while up to about the end of 1958, the drawing down of sterling balances exerted a markedly contractionist influence, this factor has since then been of little significance.

16. The following table brings out the major factors in the changes in money supply in 1960 and in 1959 as also over the period 1956 to 1960:

	(Rs. crores)		
	1960	1959	End December 1960 over December 1955
I. Increase (+) in Govt. indebtedness to the Banking System			
(i) Increase (+) in Indebtedness to RBI	+25.6	+247.0	+1401.8
(ii) Increase (+) in Govt. securities held by the Banks	+175.4	+94.8	+1155.4
II. Increase (+) in Private Indebtedness to banks	-149.8	+152.2	+246.4
(i) Increase (+) in Bank Credit	+235.8	-107.2	-67.2
(ii) Decrease (+) in Time Liabilities of banks	+246.1	+128.8	+643.3
III. Increase (+) in Foreign Assets of the R.B.I.	-10.3	-236.0	-710.5
IV. Expansionary (+) impact of changes in other assets and liabilities of the Banking System	-26.9*	+24.3	-638.2**
V. Recorded increase (+) in Money Supply	-17.1	+7.3	-4.9
	+217.4	+171.4	+691.5

\*Exclusive of repayments (Rs. 34.5 crores) to the I.M.F.

\*\*Exclusive of net borrowings (Rs. 54.7 crores) from the I.M.F.

The analysis in the table above is in terms of recorded changes in the balance sheets of banks and the Reserve Bank. Part of the differences in 1960 as compared to 1959 is on account of the revision of arrangements regarding P.L.480 funds. In the past these funds were deposited with the State Bank of India, which in turn invested them mainly in Government securities. Since May 12, 1960 these funds flow directly to Government through purchase of special securities by the U.S. Embassy. As from July 1960, past accumulations of P.L. 480 funds with the State Bank of India have been accruing to Government in monthly instalments of Rs. 12 crores each. In analysing monetary data, allowance has to be made for this change in procedure in respect of P.L. 480 funds. Broadly speaking, the data utilised above overstate the expansionary effect of bank credit to Government and understate the net expansion of bank credit to the private sector up to May 1960.

17. Subject to these qualifications, it will be seen that the larger expansion in money supply in 1960 as compared to 1959 was due, in the main, to an increase in private indebtedness to banks. The increase in Government's indebtedness was very much smaller than in 1959—Rs. 25.6 crores as compared to Rs. 247.0 crores in 1959. There was a fall in the holdings of Government securities by the banks but a larger expansion in the Reserve Bank's holdings. The increase in private indebtedness to banks in 1960, it may be noted, was the result of a larger rise in bank credit than in 1959, coupled with a fall in the accretion of time deposits from Rs. 236.0 crores in 1959 to Rs. 10.3 crores in 1960.

18. Over the five year period—covering more or less the period of the Second Plan—the expansionary impact of the increase of about Rs. 1,400 crores in Government's indebtedness to the banking system and of the increase of Rs. 643 crores in bank credit to the private sector was offset partly by a rise in time deposits of about Rs. 710 crores and a fall in foreign exchange assets of the Reserve Bank of India of about Rs. 638 crores.

19. In 1960 scheduled bank credit rose by Rs. 216 crores, i.e. by 22.4 per cent. as compared to a rise of Rs. 99 crores or 11.4 per cent in 1959. Expansion in credit was, to a large part, in response to the increasing requirements of trade and industry, but the rate of increase has, nevertheless, been somewhat on the high side. An analysis of the changes in secured advances by scheduled banks since 1958 is given in table 3.3 at the end. These advances increased by Rs. 221.9 crores in 1960; the increase in 1959 was Rs. 81.2 crores. Of the total increase in 1960, manufactures and minerals as a group accounted for Rs. 100 crores and advances against 'other' securities such as shares, debentures, Government securities, real estate, assets of industrial concerns etc. went up by Rs. 53.3 crores. Advances against sugar and gur rose by Rs. 26.9 crores and those against cotton and kapas by Rs. 22.5 crores. In the manufacturing group nearly half the increase in advances was against iron, steel and engineering products (Rs. 49.7 crores) and about a sixth against cotton textiles (Rs. 16.2 crores). The ratio of scheduled banks' advances against all manufactures and minerals to total credit went up from 38.8 per cent at the end of 1959 to 43.9 per cent towards the close of 1960. The credit needs of the economy are inevitably on the increase. Production cannot be allowed to suffer for lack of credit. At the same time, care has to be taken to ensure that credit expansion does not accentuate speculative activities and inflationary trends.

20. The continuing high levels of demand for credit and the impact of the credit restraint measures taken by the Reserve Bank since March

1960 were reflected in acute stringency in the short term money market. The call money rate in Bombay which was 3½ per cent from mid-December 1959 till September 1960 went up to 4½ per cent. by the third week of October. There was some easing in money rates following relaxation in the reserve requirements in November but with the progress of the busy season the rates hardened again, the call rate in Bombay and Calcutta rising to 5½ per cent per annum. These rates were higher by about 1½ to 2 per cent than the corresponding rates a year ago.

21. While demand liabilities of scheduled banks increased by Rs. 63·6 crores in 1960, time liabilities increased by only Rs. 1·7 crores; the increases in 1959 were Rs. 22·9 crores in demand liabilities and Rs. 230·6 crores in time liabilities. The change is partly the result of the revision mentioned earlier, of the arrangements relating to P.L. 480 funds. Even allowing for this, the rise in deposit liabilities in 1960 was lower than in 1959.

22. The small growth in deposit liabilities combined with the sharp increase in bank credit resulted in a rise in the credit deposit ratio—from 52·8 per cent at the end of 1959 to 62·4 per cent at the end of 1960. Excluding P.L. 480 deposits, the ratio worked out at 71 per cent in December 1960 as compared to 63 per cent a year ago. In the circumstances, the scheduled banks reduced their holdings of gilt-edged and increased their borrowings from the Reserve Bank. Their investments in Government securities declined by Rs. 154 crores to Rs. 633 crores partly for this reason and partly because of the transfer of P.L. 480 deposits from the State Bank of India to Government. The outstandings of scheduled banks' borrowings from the Reserve Bank went up by Rs. 49·6 crores over the year.

23. Over the last three years while in the busy season bank credit has expanded considerably, the contraction in the slack season has tended to be smaller.

#### *Seasonal Movements in Scheduled Bank Credit*

	1960-61 (Up to Jan. 27, 1961)	1959-60	1958-59	1957-58
				(Rs. crores)
Busy season . . . . .	+115·6*	+188·8	+181·7	+89·4
Slack season . . . . .	—	—20·3	—78·9	—117·9

\*Credit expansion during the corresponding period in the 1959-60 busy season was Rs. 78·4 crores

It is against this background of increasing pressure of demand for credit in the face of the limited resources available with the banks that the orientation of Reserve Bank policy to which reference is made in a subsequent section has to be viewed.

24. The market for gilt-edged remained fairly steady during the greater part of the year. The index number of prices of Government and semi-Government securities (1952-53=100) moved within a narrow range of 101·5 to 101·1 till September 1960. There was a fall in gilt-edged prices in subsequent months, the index touching 100·6 in the first week of November. This was followed by a partial recovery, the index at the end of December 1960 being 100·7. The net fall over the year was thus 0·8 per cent. The current level of the index—at 100·7—is slightly above that at the end of 1958.

25. The gross borrowing of the Central and State Governments in 1960-61 amounted to Rs. 260 crores as compared to Rs. 298 crores in 1959-60. Net borrowings (i.e. receipts allowing for conversions and repayments) were Rs. 138 crores—Rs. 71 crores by the Central Government and Rs. 67 crores by the States—as compared to Rs. 175 crores in 1959-60. Borrowings by municipal corporations, electricity boards and other Governmental or semi-Governmental institutions were also lower than in the previous year. The change in the outlook for gilt-edged reflects the stringency in the money market; it is also in part an indication of the growing demand for long-term investible funds.

26. The upward trend in equity prices noticed throughout 1959 gathered further momentum in the first part of 1960. The index of prices of variable dividend industrial securities (1952-53 = 100) moved up by 13.8 per cent reaching a peak of 182.0 in the week ended July 23, 1960. At this level, the index was over 50 per cent higher than at the commencement of 1958. Undoubtedly, a part of this improvement reflected the growing optimism in the market resulting from continued industrial expansion and the prospects for further development. There has been in recent years a widening of the demand for industrial equities from new classes of investors. It was evident, however, that the boom was in part due to excess liquidity in the economy and was indicative of an unhealthy speculative trend. The credit control measures taken by the Reserve Bank and the regulatory measures adopted by the stock exchanges themselves such as tightening of margins resulted in a break in share values towards the end of July 1960. The index of variable dividend industrial securities declined to 165.4 by the end of 1960. Over the year as a whole the rise in equity prices works out at about 3 per cent as compared to a rise of 17 per cent in the previous year and of 14 per cent in 1958. The average yield on equities which was 5.21 per cent in December 1959 fell to a low of 4.62 per cent in August and is now 5 per cent.

27. On the basis of returns available so far, the capital raised by companies in the private sector, including capital for which consent was not required under the exemption order, was Rs. 55.36 crores in 1958 and Rs. 70.04 crores in 1959. For the first nine months of 1960, for which provisional data are available, the total was Rs. 47.35 crores. This may be compared to the amount of Rs. 43.2 crores (raised during the first nine months of 1959) which was also based on incomplete information available at this time last year. These figures (which are exclusive of bonus issues) are preliminary. The data on consents given for capital issues indicate maintenance of a high level of investment intentions in the private sector in 1960. The following table shows the position:

*Sanctions for Capital Issues*

	(Rs. crores)		
	To Government Companies	To non- Government Companies	Total
1957 . . . . .	18.0	135.3	153.3
1958 . . . . .	333.5	89.5	423.0
1959 . . . . .	53.9	149.6	203.5
1960 . . . . .	139.5	150.1	289.6

The licences granted under the Industries (Development and Regulation) Act for new units and for substantial expansions were also on a larger scale than in 1959.