

IV Monetary Trends

15. There was, during the year, a further slowing down in the rate of increase of money supply in the hands of the public. Tables 3.1 and 3.2 set forth the relevant data in detail. Over the twelve months of 1958, the increase in money supply with the public was Rs. 74.9 crores as compared to an increase of Rs. 96.3 crores in 1957 and of Rs. 131.5 crores in 1956. The net indebtedness of Government to the banking system increased by Rs. 407 crores during the year as compared to an increase of Rs. 477 crores in 1957 and Rs. 244 crores in 1956. A large part of this expansionary impact on money supply in 1958 was countered by the decline in the foreign assets of the Reserve Bank and a diminution in the indebtedness of the private sector to the banking system. The decline in the foreign assets held by the Reserve Bank was Rs. 108.8 crores in 1958 as compared to Rs. 327.5 crores in 1957. On the other hand, the net decrease in bank credit to the private sector was larger in 1958—Rs. 195.4 crores as compared to Rs. 120 crores in 1957. Thus both in 1957 and 1958, there has been a decline in the net credit extended by banks to the private sector in contrast to 1956 when the banking system advanced net credit both to Government and to the private sector. The main reason for this change is, of course, the substantial increase in the time liabilities of the banking system which went up from Rs. 717.6 crores at the end of 1957 to Rs. 934.7 crores at the end of 1958—an increase of Rs. 217 crores. After allowing for the time deposits under P.L. 480, the net contractionist effect of private transactions was around Rs. 120 crores as compared to Rs. 35 crores in 1957.

16. The volume of scheduled bank advances (including bills purchased and discounted) increased over the year from Rs. 857.1 crores to Rs. 865.6 crores. On the other hand, the marked uptrend in deposits with the banks noticeable since the end of 1956 continued, the increase in 1958 being Rs. 206.1 crores as compared to Rs. 266.8 crores in 1957. This inflow of resources into the banking system enabled the banks to reduce their credit-deposits ratio which at the end of 1958 was 55 per cent. as compared to 62.7 per cent. and 71.6 per cent. at the end of 1957 and 1956 respectively. Although the State co-operative banks' borrowings from the Reserve Bank went up by Rs. 18.5 crores in 1958, those of the scheduled banks declined from Rs. 23.6 crores at the end of 1957 to Rs. 11 crores towards the close of 1958. The decline becomes even more marked when considered against the outstandings of Rs. 79.1 crores at the end of 1956. The scheduled banks also increased their holdings of Government securities by Rs. 203.8 crores in 1958. This may be compared with the increase of Rs. 69 crores in 1957 and the decline of Rs. 18.6 crores in 1956.

17. An analysis of the seasonal trend in bank credit indicates a weakening of the expansionary factors operating in the economy after the spurt in 1956-57. In the busy season of 1956-57, the increase in scheduled bank credit was Rs. 148.4 crores. The rise in the busy season of 1957-58 was Rs. 89.4 crores. Similarly, in the slack season of 1957, bank credit declined by Rs. 41.9 crores while the decline in the slack season of the following year was Rs. 117.8 crores. The table below gives the highest and the lowest levels of bank advances in the busy and slack seasons respectively in 1956-57, 1957-58 and (part of) 1958-59:

Scheduled Bank Credit

Busy season.			Slack season	(Rs. crores)	
	Lowest	Highest		Highest	Lowest
1956-57	761.3 (Nov. 16, 1956)	909.1 (April 26, 1957)	1957	938.3 (June 7, 1957)	842.0 (Sept. 13, 1957)
1957-58	840.0 (Nov. 29, 1957)	968.1 (April 4, 1958)	1958	955.9 (May 2, 1958)	834.8 (Oct. 10, 1958)
1958-59 (up to Jan. 30, 1959)	831.0 (Nov. 21, 1958)	920.3 (Jan. 30, 1959)

As a result of the reduction in the pressure of demand for funds and the substantial improvement in the resources position of banks, money rates moved downwards. The call rate among the larger banks, which remained at around 3 per cent. during the first half of 1958 declined to 1 per cent. in the second half of November 1958, although towards the end of 1958 it moved up again to $3\frac{1}{4}$ to $3\frac{3}{4}$ per cent. under the seasonal pressure of demand for funds. The rate for house money which was quoted at about $4\frac{1}{8}$ — $4\frac{1}{4}$ per cent. up to June 1958, moved downwards to $3\frac{1}{2}$ to $3\frac{7}{8}$ per cent. in December. Similarly, term money (1 to 6 months) which was sticky at $4\frac{1}{4}$ — $4\frac{3}{8}$ per cent. up to June 1958 eased to $3\frac{1}{2}$ to 4 per cent.

18. In view of the plenitude of funds in the money market, the Government of India resumed, after a lapse of 27 months, the weekly auction of 91-day Treasury Bills towards the end of July 1958. The average rate of discount on these bills declined from 2.726 per cent. per annum during the week ended August 1, 1958 to 2.411 per cent. per annum in the week ended December 5, 1958. During the current busy season, it has gone up a little and was 2.530 per cent. per annum for the week ending February 13, 1959.

19. With the improvement in the money market, the borrowing programme both at the Centre and in the States secured much better response than in the previous year. The Central Government's borrowings during 1958-59 amounted to Rs. 181 crores (net). The State Governments raised loans totalling Rs. 46 crores (net). In the aggregate the market loans raised by the Centre and the States in 1958-59 amounted to Rs. 227 crores as compared to Rs. 71 crores in 1957-58 and Rs. 141 crores in 1956-57. In addition, some of the State Finance Corporations, the Industrial Finance Corporation as well as other semi-government institutions raised sizeable amounts in the market. Despite these borrowings, the gilt-edged market remained firm throughout the year.

20. The downward trend in equity prices which had persisted since August 1956 until the end of 1957 was reversed during the year under review. The all-India index of prices of variable dividend industrial securities (1952-53=100) which had touched 120 by the end of 1957 rose more or less continuously to 144.7 by the end of September 1958—an increase of about 20 per cent. There has been some setback since then, the index declining to 136.5 by December-end. In recent weeks the index has been around 138. Over the year, the index shows an improvement of about 14 per cent., the rise in the equity prices of metals, chemicals, silk and woollen textiles and construction industries being the most marked. The capital market has thus regained confidence and has displayed through the year a firm trend. The index of prices of Government and semi-government securities also went up from 98.4 at the end of 1957 to 100.5 by December-end 1958.

21. It is doubtful, however, if the improvement in the tone of the capital market can be regarded as a pointer to increasing investment activity. Judging from company reports published during the latter half of 1958, the profits in several lines such as banking, textiles, sugar and some of the engineering industries were lower in 1957-58 than in 1956-57. The data relating to consents for capital issues also indicate some slackening of investment in the private sector. In 1957, the total consents amounted to Rs. 153.3 crores, of which Rs. 17.9 crores were in respect of Government companies and Rs. 135.4 crores were for the private sector. In 1958, the total of consents amounted to Rs. 423 crores. Of this, Rs. 333.5 crores were on account of Government companies (mainly Hindustan Steel) and Rs. 89.5 crores were for the private sector. The licenses granted under the Industries (Development and Regulation) Act for new units and for substantial expansion have also been lower in the first half of 1958 as compared to the same period in 1957, although as compared to the second half of 1957, the first half of 1958 showed some improvement. With the completion of the bulk of the steel expansion programme in the private sector and with the strict licensing policy in respect of capital goods imports, the tempo of investment in the private sector has no longer the same expansionary impact as it had in the earlier stages of the Second Five Year Plan.