

IV. Money and Capital Markets

24. The trend towards an accelerated increase in money supply which was in evidence in 1959 and 1960 was reversed in 1961. Money supply

with the public increased by Rs. 141* crores (5.1 per cent) in 1961 as compared to an increase of Rs. 216 crores (8.6 per cent) in 1960 and Rs. 171 crores (7.3 per cent) in 1959. Despite a larger increase in government's indebtedness to the banking system than in 1960, the increase in money supply in 1961 was smaller due mainly to the fact that bank credit to the private sector increased at a slower pace (Rs. 137 crores in 1961 as against Rs. 243 crores in 1960). Another factor which tended to slow down the rate of increase in money supply in 1961 was the somewhat larger decline in the foreign assets held by the Reserve Bank than in the preceding two years (cf. Table 4.2 in the Appendix).

25. The smaller increase in bank credit in 1961 is attributable to several factors. The step-up in investment in the organised private sector was moderate in comparison with the previous year. The more stringent monetary policy pursued by the Reserve Bank since October 1960 which emphasised general credit restraints in addition to selective credit controls would also appear to have been a factor in restraining the growth of credit. It is also possible that the prevailing climate of relative stability of prices reduced the incentive for speculation in commodities. Table 4.3 at the end gives details of scheduled banks advances by types of securities.

26. While credit expansion was thus relatively small, the deposit resources of the scheduled banks increased by Rs. 90 crores in 1961 as compared to Rs. 66 crores in 1960.† Consequently, in contrast to the acute stringency in the money market in 1960, relatively comfortable money conditions prevailed during the greater part of 1961. The inter-bank call money rate in Bombay which had reached a level of 5.26 per cent during the 1960-61 busy season declined gradually to the low level of 2 per cent at the beginning of September 1961. With the onset of the busy season demands for funds, it firmed up towards the close of the year; but even then, it stood at 4.36 per cent as compared to 4.61 per cent at the end of 1960.

27. The relatively easy conditions in the money market also resulted in larger purchases of Government securities by the commercial banks. In contrast to the previous year when commercial banks had been net sellers of Government securities (even if sales associated with the decline in P.L. 480 deposits are ignored), they emerged as net buyers during the current year. The gilt-edged market was firm in the early part of the year. The index number of prices of government and semi-government securities (1952-53=100) moved up progressively, from 100.7 in December 1960 to 101.1 in April 1961. It remained at or about this level until October after which with the advance of the busy season and increased demand for credits it fell slightly during the following two months. During the week ended January 27, 1962 it ruled at 100.7, the same level as in the corresponding week of last year.

28. The credit expansion by scheduled banks during the current busy season so far (October 27, 1961—February 9, 1962) has been smaller (Rs. 123 crores) than during the same period of the last busy season (Rs. 146 crores). Expansion of credit against agricultural commodities has been smaller while advances against manufactures and minerals

*If the withdrawal of currency from Kuwait is ignored, the increase in money supply would be Rs. 175 crores (6.4 per cent).

†If the variations in P.L. 480 deposits with the State Bank are ignored, deposit expansion in 1961 was substantially larger (Rs. 173 crores) than in 1960 (Rs. 118 crores).

have shown a larger increase. The pace of credit expansion, however, has quickened since the end of December 1961. While there has been an increase in the deposits of scheduled banks during the current busy season (Rs. 36 crores) in contrast to a small decline in the corresponding period of the last busy season, the banks had less cash to draw upon this year as compared with the previous year when, with the revocation of the additional reserve requirements, they could use the deposits which had been earlier impounded. Consequently, the borrowings of banks from the Reserve Bank have been increasing, totalling Rs. 33 crores so far as compared with Rs. 45 crores for the same period last year. In keeping with the usual seasonal trend, the investments of scheduled banks in Government securities have declined, although the decline this year between October 27, 1961 and February 9, 1962 is smaller, being Rs. 37 crores as compared with Rs. 57 crores last year (ignoring the disinvestments due to the transfer of P.L. 480 funds). While money rates have hardened, they continue to rule lower than in the preceding busy season.

29. The stock markets which had become rather subdued in the latter half of 1960 recovered in the early months of 1961. The relatively easy money market conditions, the encouraging trend in profits and the maintenance of severe import restrictions were among the factors which influenced the upward trend in stock market prices. The index of variable dividend industrial securities moved up from 164.9 in January 1961 to 183.5 in June. There was a break in share values thereafter, but since October, there has been a revival of the stock exchange boom and the index of security prices reached 186.7 by the end of January 1962 i.e. to a level about 11.9 per cent higher than a year ago.

30. With the continued buoyancy in the stock markets, a large number of new issues were floated and, as in the past, some of these were substantially over-subscribed. The new issues were in respect of a wide range of industries e.g. rubber manufactures, paper, aluminium, engineering and chemical and allied industries. The trend in the current year has been in keeping with the growing interest evinced by investors in equities in recent years.