

VI. Money and Capital Market

73. Monetary Trends: The pace of monetary expansion which had slackened somewhat in 1961-62 got accelerated during the current year. During April to October 1962 (the major part of which is the usual slack season) money supply with the public declined by only Rs. 21 crores in contrast to a decline of Rs. 58 crores during the same period in 1961. The smaller decline in money supply during the earlier part of the current year was mainly a reflection of the fact that bank credit to the private sector did not show as large a seasonal decline in 1962 as during 1961. In fact between the end of March and the end of October, there was a small increase in bank credit (gross) to the private sector during the current fiscal year. Reserve Bank's credit to Government (as also credit extended by commercial banks to Government) was about the same during the earlier part of the current year as in the corresponding period of last year. The following table shows the factors which contributed to the changes in money supply during 1961-62 and 1962-63:

(Rs. crores)

	1961-62		1962-63	
	March 31 to October 27	October 28 to January 26	March 31 to October 26	October 27 to January 25
1. Net bank credit to Government	+133	+84	+138	+102
(a) Reserve Bank's net credit to Govern- ment*	+16	+111	+18	+134
(b) Banks' holdings of Government securities†	+117	-27	+120	-33
2. Net bank credit to the private sector (2a-2b)	-151	+64	-107	+80
(a) Bank advances and holdings of private securities (gross bank credit)	-51	+98	+14	+92
(b) Banks' time deposits†	+100	+34	+121	+12
3. Net foreign exchange assets of the Reserve Bank	-51	-7	-49	+3
4. Money supply with the public*	-58	+118	-21	+128

*The receipt of Rs. 34 crores by way of loan from the Kuwait Government is ignored in computing the Reserve Bank's credit to Government and correspondingly the withdrawal of Rs. 34 crores of currency from Kuwait is ignored in the calculation of variations in money supply.

†The figures of time deposits ignore the variations in the P. L. 480/665 deposits held with the State Bank of India and correspondingly the disinvestment made by the State Bank of India to finance the fall in time deposits is ignored.

74 Since November 1962 the pace of monetary expansion in the current fiscal year has been about the same as during the corresponding period of 1961-62. Money supply with the public during November—January this year increased by Rs. 128 crores as against Rs. 118 crores last year. The Reserve Bank's lending to Government amounted to Rs. 134 crores this year as against Rs. 111 crores last year. Bank advances to the private sector have shown the same order of increase as in the corresponding months of the previous year.

75. The resources of the banks increased further during the current year and although credit expansion by banks between March, 1962 and January, 1963 was larger, the banks were able to meet the demand for credit from their own resources and also add to their investments in Government securities. The deposit resources of the scheduled banks (exclusive of P.L. 480/P.L. 665) rose by Rs. 150.6 crores between March, 1962 and January, 1963—Rs. 127.6 crores in time deposits and Rs. 23.0 crores in demand deposits. Several factors have contributed to the growth of bank deposits. The official measures to strengthen the banking structure by the compulsory merger of substandard units with the sound banks, the setting up of the Deposit Insurance Corporation in January, 1962 and also the higher deposit rates offered by the banks under the Inter-Bank Agreement have helped to attract more funds to the banks. Altogether, in the last few years, the aggregate deposits with the banks have risen faster than currency; and the number of deposit accounts has increased at an average annual rate of about 12 per cent over the last five years.

76. The improved resources position of the banks is reflected in the decline in the credit-deposit ratio and an increase in banks' investments in government securities. The credit-deposit ratio for scheduled banks (exclusive of P.L. 480/P.L. 665) declined from 84.8 at the end of March 1961 to 78.5 by March 1962. The credit-deposit ratio at end-January 1963, i.e. in the midst of the busy season, was 75.5 per cent as compared to 76.8 per cent in 1962 and 80.1 per cent in 1961. In the first ten months of 1962-63 the scheduled banks increased their holdings of government securities by Rs. 83.7 crores as compared to an increase of Rs. 90.4 crores in the corresponding period of 1961-62 and disinvestment of Rs. 37.0 crores in 1960-61.

77. Since the introduction of the three-tier system of rates for borrowings from the Reserve Bank of India the scheduled banks have generally been reluctant to borrow from or to remain indebted to the Reserve Bank for long. In 1961, the scheduled bank borrowings from the Reserve Bank had reached a peak of Rs. 94.5 crores at end-March 1961. The peak level of borrowing from the Reserve Bank during 1962 was much lower—Rs. 66.4 crores in the week ended March 16, 1962. During the current busy season borrowings from the Reserve Bank were Rs. 24.6 crores at the end of January as compared to Rs. 18.8 crores at the same time in 1962.

78. *Monetary Policy:* The orientation of monetary policy over the past few years has been towards a gradual and orderly increase in interest rates. The substitution of the three-tier system of rates which was in force from October 1, 1960 by a four-tier system (effective from July 2, 1962) meant a raising of the average lending rate of the Bank by about $\frac{1}{2}$ per cent or more. After the declaration of the national emergency, further precautionary measures have been taken to check undue credit expansion. The scheduled banks' normal access to the Reserve Bank has been pegged at the average level of their statutory reserves with the Bank in the preceding quarter. Borrowings beyond this limit depend on the Reserve Bank being satisfied regarding the overall position of the

borrowing banks and the justification for their additional financial needs. On January 2, 1963 the Bank Rate was raised by $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent and simultaneously the system of quotas and lending rates was simplified. The increase in Bank Rate, in effect, formalised the previous pattern of effective lending rates by the Bank. The present lending rates of the Reserve Bank are $4\frac{1}{2}$ per cent up to 50 per cent of the statutory reserves of the scheduled banks and 6 per cent for another 50 per cent of the statutory reserves. Lending beyond this limit i.e. beyond 100 per cent of a bank's statutory reserves is discretionary and subject to a penal rate of interest.

79. The Bank has continued to employ selective credit controls in a flexible manner along with other instruments of credit policy. In view of the pressure on prices of rice, existing controls on advances against paddy and rice were tightened in January, 1963. New ceiling limits for advances against paddy and rice have been fixed and advances against warehouse receipts which were formerly exempt have now been brought within the ambit of control. At the same time, the Bank has relaxed its existing controls on advances against groundnuts with a view to permit additional credit limits to be granted to exporters.

80. The scheduled banks have also progressively increased their lending rates, the average rate on advances having gone up from 5.8 per cent in the first half of 1960 to 6.5 per cent in the second half of 1961. A number of scheduled banks have recently agreed to fix their minimum lending rates at $6\frac{1}{2}$ per cent i.e. two per cent above the Bank Rate. The other financial institutions had also raised their rates earlier in the year. The Industrial Finance Corporation raised its lending rate by $\frac{1}{2}$ per cent to $7\frac{1}{2}$ per cent (less $\frac{1}{2}$ per cent discount, as in the past, for punctual payments) on July 19, 1962. The Industrial Credit and Investment Corporation and the State Financial Corporations have also made similar increases in their lending rates. The Life Insurance Corporation raised its effective rate on mortgage loans from $6\frac{1}{2}$ per cent to 7 per cent on July 18, 1962. The rates on Central Government's lending to States have also been increased during the current year.

81. *Trends in Capital Market:* The gilt-edged market showed the impact of the uptrend in the interest rate structure. There was a steady trend up to June 1962. Since July gilt-edged prices tended to decline in a process of adjustment to the new pattern of yields based on the terms of new loans announced by government in July 1962. The index of government and semi-government securities (1952-53=100) which was 100.7 in January 1962 and was about the same level in June 1962, declined steadily thereafter, the level at end-January 1963 being 99.2.

82. The stock markets had been buoyant at the beginning of 1962 and the uptrend continued till the middle of May 1962. This was followed by a reaction which, except for a brief spurt in August, continued throughout the remaining part of the year. The downtrend in share prices was further accentuated in October and in the first week of November, there was a sharp fall in share prices. The index of variable dividend industrial securities which had risen from 180.9 in October 1961 to 195.3 in May 1962 declined to 168.8 during the week ended November 10, 1962. As a result of the measures taken by the stock exchanges and the Government, there was some revival in the following weeks and the index had gone up to 172.5 by the beginning of 1963; but the general feeling of uncertainty continues

83. It is difficult to say on the basis of available data whether the subdued sentiment on the stock exchange has had any adverse effect on private investment. Capital issues made during 1962 by relatively large public limited companies (other than government companies) are estimated at Rs. 98.1 crores (including Rs. 30 crores of debenture issue by Oil India) as against Rs. 71.6 crores in 1961. The amount of consents for capital issues—an approximate indicator of investment intentions of the private sector—also rose from Rs. 133 crores in 1961 to Rs. 165 crores in 1962. On the other hand, there has been some slowing down of fresh applications for industrial licences and for capital issues in recent months; new issues on the stock market have been less than usual since November 1962.