

Development Budgeting to be Reviewed

The development budgeting adopted by the Government should be reviewed without delay. Already during the past four years the Government have, through budgetary deficits, increased money incomes as also money supply in the country. Now they are again on the path of deficit budgeting and greater taxation. This will lead to further addition to money incomes. The authorities at the Centre should effect administrative economy and cut down non-productive expenditure to the bare minimum. At the State end, the Government should put a halt to experiments like the establishment of panchayats, prohibition, etc., which necessitate increase in taxation. Defence expenditure should be pruned to see that waste is totally eliminated.

Banking in the Years of Freedom

Sukumar Chakrabarti

NEXT perhaps to jute, Indian Banking has suffered the most from circumstances created by the partition of India. Ever since 1941, banking was the most prolific of all commercial activities under the impact of war finance until partition called a halt to its progress. And since then, decline in Indian Banking has been very precipitous.

Total deposits of the Scheduled banks reached its highest in 1947 at Rs. 10,42,74 lakhs. Since then, after a continuous fall the figure now stands at Rs. 886,80 lakhs according to the latest return for the week ending August 3. On the other hand, pressure on the banks for accommodation has almost remained stationary. Total Advances and Bills Discounted in 1947 was Rs. 445,64 lakhs and it stood at Rs. 522,88 lakhs on August 3. As against a fall of Rs. 155,94 lakhs in total deposit, the Loans, Advances and Bills Discounted has recorded a rise of Rs. 77,24 lakhs only. Thus the banks have been experiencing difficulty in meeting the increased demand for Loans and Advances with decreasing resources. They have been able to meet demand for advances by drawing down their balances with the Reserve Bank from Rs. 95,77 lakhs in 1947 to Rs. 26,34 lakhs in 1950. This, coupled with declining value of their investment, has squeezed some of them out of existence. During 1948-50 as many as 128 banks with paid-up capital

of Rs. 3,87,31,943 closed down. Often there has been a suggestion that we should try "the income freeze method" to control the price level. Britain has, no doubt, tried "price stops", "wage stops" and "dividend stops" to stabilise prices and has been successful. But this can be tried in this country only if the Government provide for adequate foreign aid, as Britain has done, and follow a consistent price policy. The income freeze method will succeed if the cost inflation and the unhealthy interaction of different sectional prices are first brought under control. The basic problem will then be the food prices. These can be brought down only if adequate imports are secured and Central reserves are built up. Without reducing food prices, other prices cannot be controlled and neither Labour nor the employers will observe voluntary or compulsory "freezes".

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The continuous fall in the value of the Government securities has hit the banks pretty badly. Total investment of the scheduled banks in Government Securities has fallen from Rs. 483.8 crores in December 1947 to Rs. 366.0 crores in December 1950. The manner of investment has also changed. In 1947 investment in Government securities maturing within 5 years was 30 per cent. While those maturing after 15 years accounted for 25 per cent of the total investment. In 1950, these percentages were 32 and 15 respectively. This is quite in keeping with the tendency of the market which has registered a steeper fall

in long term than in short term securities. Securities maturing between 10 and 15 years have, however, proved more popular with the banks because of higher interest yield and investment in such securities increased from 20 per cent of the total investment in Government securities in December 1947 to 29 per cent in December 1950.

With Loans and Advances almost stationary, the banks earnings have not shown any marked fall. Gross earnings fell from Rs. 29,83.4 lakhs in 1947 to Rs. 29,102 lakhs in 1950. But with increased establishment charges and loss incurred in sale of assets, the balance of net profit declined from Rs. 9,18.5 lakhs in 1947 to Rs. 6,58.4 lakhs in 1950. Establishment expenses increased during the period from Rs. 8,62.7 lakhs to Rs. 11,24.8 lakhs and depreciation written off and loss incurred in sale of assets increased from Rs. 34.0 lakhs to Rs. 71.3 lakhs. It is interesting to note in this connection that establishment expenses increased during this period by 9 per cent in the case of Indian Scheduled Banks, while in the case of the Exchange banks it increased by 6 per cent only between 1949 and 1950. (Figures for previous years for the exchange banks are not available).

The Indian Scheduled banks have, however, been able to increase the allocation to dividends to the shareholders from Rs. 2,34.3 lakhs in 1947 to Rs. 245.9 lakhs in 1950, partly by reducing their carrying forward to Reserve from Rs. 77 lakhs to Rs. 63.7 lakhs, provision for taxes on profit from Rs. 294.9 lakhs to Rs. 164.5 lakhs, allocation to other special purposes from Rs. 2,20.2 lakhs to Rs. 1,16.0 lakhs and carry forward to next year's account from Rs. 191.1 lakhs to Rs. 52.9 lakhs

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during the same period. But it must be said to the credit of the Indian Scheduled Banks that they did not try to maintain dividends at the cost of the solidarity of the banks. Reserve has risen during these years from Rs. 22,06 lakhs to Rs. 26,39 lakhs as against the decline in paid-up capital from Rs. 36.39 lakhs to Rs. 36.01 lakhs.

Different sections of the Scheduled Banks however have pursued different policies. The Imperial Bank of India curtailed their advances from 1942 and increased investment in Government Securities in pursuance of war finance. Since 1948 they have, however, reversed the policy and increased their Loans and Advances from Rs. 77 Crores in

1947 to Rs 94 Crores in 1950 and reduced their investment from Rs. 164 crores to Rs. 111 crores during the same period. The other Indian Scheduled Banks have maintained a steady ratio between total deposit and Loans and Advances. The Exchange Banks, on the other hand, have greatly increased their Loans and Advances from Rs. 81 crores in 1947 to Rs. 111 crores in 1950, The pressure on the Exchange Banks for meeting the increased demand for accommodation has been much greater than the increase in their Indian resources. Between 1947-50, their deposits increased by Rs. 9 crores but their Loans and Advances increased by Rs. 30 crores. Under the circumstances, the recent all

round increase in the rate of interest charged by the Exchange Banks is quite understandable.

The net profits earned by the different sections in Indian Banking also show a good deal of divergence. While the Imperial Bank have maintained their net profit almost at a constant level during these years, other Indian Scheduled Banks recorded a fall of Rs. 185 lakhs. The Exchange Banks' net profit also shows a fall of Rs. 1,23 lakhs between 1949 and 1950.

The accompanying tables compiled from the latest issue of the *Statistical Tables relating to Banks in India* for 1950 throws interesting light on the different sections in Indian Banking.

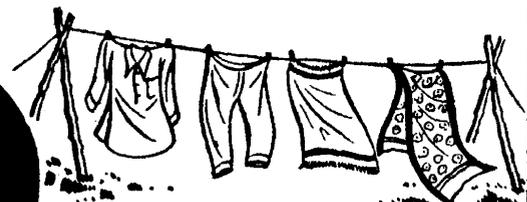
		(In Lakhs of Rupees)						
Name of Bank	Year	(1) Total Deposit	(2) Loans & Advances	(2) as % of (1)	(3) Invest- ment	(3) as % of (1)	(4) Net Profit	(4) as % of (1)
Imperial Bank	1947	286,59	77,07	26	164,20	57	1,23	.4
"	1948	280,29	85,74	30	161,25	58	1,20	.4
"	1949	250,46	86,12	34	106,85	42	1,23	.5
"	1950	231,37	94,44	40	111,55	48	1,25	.6
Other Indian Scheduled Banks	1947	619,87	261,29	42	284,84	45	5,96	.9
"	1948	594,91	251,10	42	279,64	47	4,87	.8
"	1949	509,10	226,09	45	241,86	47	4,32	.8
"	1950	522,99	233,16	44	239,96	45	4,11	.7
Exchange Banks	1947	163,67	81,51	47	—	—	—	—
"	1948	160,19	103,92	64	—	—	—	—
"	1949	162,03	104,79	64	46,31	28	4,68	2.8
"	1950	172,00	111,83	64	46,21	26	3,36	1.9

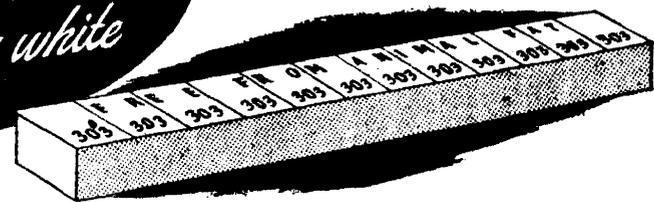
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