The Central Bank of India Limited

Speech delivered by the Chairman, Sir Homt Mody, at the Forty-second Ordinary General Meeting of the Bant, held on Thursday, the 26th March 1953

Gentlemen,

The year under review closed on a somewhat hopeful note. The danger of the Cold War developing into a clash of arms seemed to have receded and the financial outlook in most countries became a little more reassuring. Owing to the Presidential election, there was no major change in American economic policy which largely governs business and industrial trends in the world of today. The countries of Western Europe and the British Commonwealth were able, on the whole, to reduce the gap between their receipts and payments on international account, but this, it must be said, was achieved largely by restricting imports and not by any far-reaching changes of a permanent character,

ECONOMIC SITUATION

Economic conditions in India during the year showed on the whole a greater improvement than at any time in the post-war period, notwithstanding the persistence of a rather weak undertone in commodity prices. There was a sizeable increase in the stocks of foodgrains available with Government, the rising trend of industrial production was well maintained and the inflationary forces which bedevilled the economy for a long period were at last brought under control. On the food front, the apprehensions created by measures of decontrol were found to be exaggerated and some progress was made towards the restoration of normal conditions.

Production in all the major industries, including textiles which were adversely affected for some time because of shortages of raw cotton and jute recorded a notable increase during the year. The Engineering and Tea industries, alone among major producers, showed a fall in their output. Some of the industries were faced with a new problem in the shape of reduced off-take and accumulation of stocks towards the end of the year, but it was not very serious.

CHANGE IN BANK RATE

The operations of the scheduled banks, because of the new monetary policy adopted by the Reserve Bank in November 1951, when the Bank Rate was raised and open market operations stopped, were on a restricted scale. The position may be summarized by comparing the main data at the end of 195-2 with those *of'* the corresponding period of the preceding year:

	Dec. 28, 1'951	*Dec,* 28, 1952
	(in crores	of Rs)
Deposits	869	848
Advances, Loans, etc'. . . .	.554	485
(% of deposits)	03.8	57,2
Investments . .	307	323
(% of deposits)	35.4	38.1

The most significant change was the reduction of Rs 69 crores in the volume of loans and advances. By comparison, a fall of 21 crores in deposits may be regarded as not very significant. It may be noted that this reduction took place wholly in demand liabilities, time liabilities actually showing an increase:. From the relative position of bank loans to deposits, it appears that it was not so much the position of liquid resources, as the prospects of utilising them profitably in loans to trade and industry, which was the main problem of banks during the year. 'The improvement in investments was almost wholly due to Treasury Bills which were not on offer in 1951.

In the busy season following the introduction of the new monetary policy in November 1951, the chief problem of the banks was the procurement of resources for meeting the demands of credit-worthy borrowers. Thanks to the efforts made by the Reserve Bank for developing a bill market, scheduled banks were, however, able to meet this demand comfortably. In the present busy season, the demand for credit seems to have considerably weakened. Compared with an increase of about 100 crores in bank credit in 1951-52, the increase over the slack period which has taken place during the current season, which is not yet over, is only of the order of 46 crores.

THE FIVE-YEAR PLAN

The Five-Year Plan which was published towards the end of the year should have a vital bearing on the operations of scheduled banks and their policies in the years immediately ahead. If the programme of development involving an overall expenditure of Rs 2,069 crores in the public sector is executed, according to schedule, there should be a substantial increase in general economic activity such as would create opportunities for a large volume of business by the banks. The Planning Commission does not make any estimate of the total increase in short-term credit which the rising tempo of economic activity would need, but the requirements of the private sector of industry have been placed at Rs 150 crores. This is the additional working capital which Industry would need by the end of the Plan, and it would be mainly the responsibility of scheduled banks to provide it.

The Planning Commission recognises the important role which the banking system of the country will have to play in the provision of short-term credit. It is, however, apprehensive that banks, if they are guided by the profit motive, may not be able to extend credit facilities for those schemes to which the highest priority has been accorded in the Five-Year Plan, and the Commission goes on to say that:

> " The process of economic development, once started, will make new demands on the banking system, and this may necessitate changes in organization and structure. . . . 'The proper discharge of its functions by the banking system will necessitate its operations more and more in the light of the priorities for development indicated in the Plan and less and less in terms of returns on capital. The banking system — and in fact the whole mechanism of finance including insurance, the Stock Exchanges and other institutions concerned with investment will thus have to be fitted increasingly into the scheme of development visualised for the economy as a whole."

RESERVE BANK CONTROL OVER SHORT-TERM CREDIT

With a view to ensuring that lack of short-term credit will not hamper the development programmes set out in the Plan, the Planning Commission desires that the Reserve Bank should exercise a direct control over its operations. What the nature of this control is to be is not, however, indicated. Taking into consideration the fact that scheduled banks in India have so far fully responded to the directions they have received from the Reserve Bank and have actively cooperated in carrying out its general policy regarding credit, there does not appear to be any need for the Reserve Bank to exercise any additional control for securing the flow of credit necessary for the execution of the Plan.

Future developments in this connection will be watched with a great deal of interest, and not a little anxiety, in view of the unfortunate utterances of some of the Ministers of Government when the Plan was debated in Parliament. They appeared to suggest that substantial changes were necessary in the structure and organization of Banking and that they had a more positive policy in view than what the Planning Commission had recommended. Such statements raise doubts about the measure of acceptance by Government of the role of private enterprise in the execution of the Five-Year Plan, and considering the way in which the banking system has been serving the country, talk of intensified control can only be characterised as unfortunate and uncalled-for.

CENTRAL BUDGET

Before I close this review, I would like to say a few wo ids about the Budget presented to Parliament a few days ago. The proposals this year seem to be generally in consonance with the emphasis placed on the formation of capital in the Five-Year Plan, and there has not been any material change in the rang or level of different taxes. If the country is to be in a position to develop to anything like the full extent of its resources, it is obvious that conditions have to be provided for savings in every sector of its economy. To create a position in which the nation is reduced to living on past savings, would be to stunt its growth and incapacitate it from achieving a higher standard of life, which can come about only through greater productivity and the ability to save and invest. A feature of our economy which has not received the attention it deserves is the pace at which Governmental spending is mounting. It is a factor which may not be peculiar to India; the essential difference lies, however, in the stage of industrial development reached by this country, compared with the conditions obtaining amongst the nations of the West.

One of the important proposals made by the Finance Minister in his speech relates to the appointment of the Taxation Enquiry Commission, under the Presidentship of Dr John Matthai, to make a thorough investigation of the present system of taxation at all levels and to make recommendations for the future. It may be hoped the Commission will be able to evolve proposals calculated to increase the volume of savings and capital formation and to sustain the basic incentives for increased production.

DIFFICULTIES FACING BANKS

'Turning to the Directors' Report and Statement of Accounts, I shall first deal with the special factors which prevailed in 1952 and which generally affected the business and profits of Banking institutions.

The dearer money conditions resulting from the raising of the Hank Rate in November 19,51 and the disparity between Indian and British interest rates, coupled with the policy pursued by foreign banks of financing their business with local funds to a greater extent than before, led to mounting pressure on available funds. This resulted in a general rise in deposit rates and consequent increase in the cost of working capital. For call and short-term deposits, the rate went up to as much as 3 per cent resulting in a material change in the pattern of deposits as compared with previous years. Call deposits, so to speak, became the order of the day. The rising deposit rates, in the case of some of the larger banks was reflected in an appreciable increase in the interest paid *on* deposits, although the aggregate total of the deposits stood at a lower figure, as compared with the previous year. To make the position worse, the sharp and precipitous fall in the prices of commodities in March 1952 caused such hesitation and nervousness on the part of businessmen as to prevent them from launching out into fresh commitments. In consequence there was an appreciable drop in the Advances and Bills business of banks. The lower level of activities, at times, meant the nursing of capital borrowed at higher cost.

On the investment side the setback was of a more serious nature. On the working funds locked up in Government Securities the Bank had to pay at times a higher rate of interest than what the Securities earned. In case of banks with large investment portfolios—which it was not possible to reduce on account of the prevailing unfavourable rates —a. narrowing of margin even to a small extent was enough to make a substantial difference in the final results. Establishment charges maintained an upward trend in all the banks and materially affected the figures of net profits.

LOWER NET PROFIT

From the Statement of Accounts presented to you, you will see that the result of the Bank's working during the year yielded a net profit of a little over Rs 1 crore which, when compared with the figure of the previous year, shows a drop of about Rs 25 lakhs, though the gross earnings during the year showed an increase of Rs 6¼ lakhs.

By reason of the deposit rates being higher during the year, the amount paid by way of interest on our deposits and borrowings was higher by Rs 17 lakhs, though the total deposits and borrowings dropped by over Rs 7½ crores.

The Advances and Bill business of the Bank showed a decrease of Rs 5,81,00,000 as compared with 1951

Establishment charges went up by a further Rs 13,62,000 during the year under review. An idea of the enormous increase under this head can be had from the fact that during the last three years there has been a rise of as much as Rs 56 lakhs due to the implementation of the Sen Award, and even after it was set aside, on account of our having to continue the salaries and allowances as required by the provisions of the Industrial Disputes Act of 1951.

As you may be aware, another Tribunal was appointed last year, to which scales of pay and allowances and other such matters were referred by Government. The Tribunal had prolonged sittings and their Award is now awaited.

BONUS TO STAFF

This is an appropriate place in which to refer to the question of Bonus paid to the staff. The payment of Bonus depends on the available surplus left over out of the net profits of the year, after making provision for taxation, dividends to shareholders, depreciation in Securities and other contingencies. After making these provisions, the surplus in the hands of the Directors was not sufficient to enable them to sanction a higher amount than one month's salary, which together with what was paid in July, amounted to two months' salary as Bonus. The Management sent to the Group Agents all relevant statements bearing on the subject from the published accounts of the last ten years. This helped to allay the misapprehensions which had been aroused and there was a greater disposition on the part of the staff to accept the inevitable.

In determining the quantum of Bonus to be paid out of the available surplus, an important factor is to be taken into consideration, and that is the total of salaries. Owing to the abnormal rise in establishment charges, there has been a substantial increase in the amount required for paving Bonus. In previous years, not only were the profits higher but the salary bill stood at a lower figure. The position in the year under review was that a larger amount was paid by way of Bonus than was required in 1946 when the equivalent of 4½ months' salary was paid to the staff.

MARKET VALUE OF SECURITIES

In the Chairman's Speech last year, reference was made to the fall of Rs 3,15,00.000 in the market value of our holdings. At the end of 1952, the difference between the book and the market value widened still further, and after providing Rs 35 lakhs out of the profits, the difference today stands at the figure of Rs 3,54,00,000. As pointed out, however, to you last year, on the maturity of the Securities in our Portfolio, the difference, would not only be wiped off, but according to our reckoning, there would be a total surplus on our investments of over a crore of rupees. In the meantime, we are keeping a close watch on the position and shall do everything we can to reduce our commitments whenever an opportunity offers itself.

LONDON BRANCH

Shareholders will be interested to know that we decided to open a Branch of the 'Bank in London. We have been successful in seeming premises at Fenchurch Street, which is one of the most prominent localities from the banker's point of view. Vacant possession is expected to be given in the month of June, when the Branch will begin to function. we nave appointed Sir Cecil Trevor, Retired Deputy Governor of the Reserve Bank, as our representative in London, and we have every hope he will be able to develop whatever possibilities there are of business in the London market,

STAFF SERVICES APPRECIATED

The times are difficult and a heavv and ever increasing burden is thrown upon those in charge of the affairs of the Bank. To Mr Captain who, apart from his normal responsibilities, is bearing the burden of the representation of the Bank's case before the Tribunals appointed from time to time, to Mr Karanjia, our Manager of Branches, to Mr Cooper, our Secretary and to our Local Committees at the various centres, I would like to convev on your behalf our sincere thanks for the sterling work they have been doing. I would also like to extend to all members of our Staff at the Head Office and at the Branches our appreciation of their services. 1 have every hope that, in time to come, there will be a more active realization of the close identity of interests between all who are working to advance the interests of this institution.

I shall conclude on a personal note. It is due to the generous gesture of Mr Dinshaw Romer that I find myself back in my place. He had been serving as your Chairman for over three years with wholehearted devotion and there was no reason for any change in the direction at the top, but he insisted on my getting back into the position I occupied before I left to assume other responsibilities, and all 1 can say is, I hope I may be able to justify the confidence placed in me by him and other members of the Board. I am sure I am voicing your feelings in conveying to Mr Romer our warm appreciation of his services to the Bank.

I have now pleasure in moving the adoption of the Report and Audited Statement of Accounts.

THE AMERICAN NEGRO

a UNITED ASIA special number scheduled for June 1953

PRINCIPAL CONTENTS

ARTICLES

John Hope Franklin: From Slavery to Freedom

W E B Du Bois: The American Negro in My Time

Hugh & Mabel Smythe: The Negro Scene: A General View

Hylan Lewis: The Negro Scene: Facts and Figures

James Ivy: The Character of Negro Opinion

Alain Locke: The Negro in the Arts

Mozell Hill: Modern Negro Literature

POEMS

Langston Hughes: Twelve Favourite Poems—a Miniature Anthology

Countee Cullen & Myron O'Higgins: Two Poems on Gandhi

Sterling Brown: Strong Men

BIBLIOGRAPHY

Cedric Dover: The Negro Looks at Himself

PAINTINGS

Edwin A Harleston: The Old Servant

Aaron Douglas Asian Professor; Heritage

Robert Blackburn: The Toiler

Allan Crite: Last Game at Dusk

SCULPTURES

Elizabeth Catlett: Black Madonna

John Rhoden: Invictus

Richmond Barthe: African Dancer

subscription Rs 10 a year

UNITED ASIA
120 Wodehouse Road
Bombay 5 India