Monetary policies of countries in Asia and the Far-East region.

Inflation came with the War and developed in various degrees in many countries of Asia and the Far East region. It was so violent and persistent that it put a great obstacle to the recovery and reconstruction of the countries of the region. Broadsly speaking, compared with the prewar period, the price level in 1946 increased by two to two and a half times in Ceylon, India and Pakistan, three times in Malaya, four times in Burma, six times in the Philippines, eight times in Indo-China, and eleven times in Thailand. In Japan it increased by twelve and a half times, in Indonesia, twentyfour times, and in South Korea more than fiftytimes. China experienced severe inflation and between 1939 and 1947 prices rose more than fifty thousand times in terms of the Yuan Currency.

Inflation in this region was generally caused by pressure of demand generated by budget deficits, high rates of private investment or spending of accumulated liquid assets on the one hand and scarce supplies of consumer goods on the other and a high level of exports accompanied by relatively small imports. To what extent these factors were responsible for producing inflation in the different countries of the region is difficult to assess for lack of sufficient statistical data. Prominent among these was the budget deficit:

The figures given below will share budget deficit of some countries of Asia and the Far East region.

(In Million local currency Units.)

<table>
<thead>
<tr>
<th>Burma (Rupee)</th>
<th>China (CNY)</th>
<th>Japan (yen)</th>
<th>Pakistan (rupees)</th>
<th>Philippines (pesos)</th>
<th>Thailand (baht.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>venue</td>
<td>38,315.1</td>
<td>115,757.6</td>
<td>-</td>
<td>-</td>
<td>238.9</td>
</tr>
<tr>
<td>penditure</td>
<td>172,077.9</td>
<td>152,312.5</td>
<td>-</td>
<td>-</td>
<td>410.1</td>
</tr>
<tr>
<td>fict</td>
<td>135,702.8</td>
<td>42,623.9</td>
<td>-</td>
<td>-</td>
<td>121.2</td>
</tr>
<tr>
<td>(in C. N. $ thousand units)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>venue</td>
<td>1,198.5</td>
<td>52,402</td>
<td>-</td>
<td>-</td>
<td>249.0</td>
</tr>
<tr>
<td>penditure</td>
<td>1,250.2</td>
<td>116,616</td>
<td>-</td>
<td>-</td>
<td>465.7</td>
</tr>
<tr>
<td>fict</td>
<td>61.8</td>
<td>66,913</td>
<td>-</td>
<td>-</td>
<td>216.7</td>
</tr>
</tbody>
</table>

| venue         | 288.0       | 383.8       | -                 | -                  | 166.1            |
| penditure     | 428.2       | 126,418.2   | -                 | -                  | 1,023.0          |
| fict           | 145.4       | 44,300      | -                 | -                  | 654.8            |

| venue         | 319.4       | 12,105.0    | 373,916           | 206.1              | 232.2            |
| penditure     | 358.4       | 46,004.1    | 432,413           | 494.1              | 1,029.7          |
| fict           | 37.1        | 53,833.0    | 55,897            | 268.6              | 344.7            |

| venue         | 459.4       | 56,280.2    | 1,069,583         | 587.0              | 392.3            |
| penditure     | 648.4       | 96,276.2    | 1,126,488         | 1,030.0            | 498.8            |
| fict           | 167.0       | 39,995.7    | 53,005            | 443.0              | 166.5            |

*China National Dollar

   United Nations PP. 166 & 167.
The figures given above do not show the whole of the deficit, because, budgeted expenditure very often did not show the whole of the Governmental outlay. Capital expenditure and expenditure on various special accounts were often excluded from the ordinary budget. Moreover no account was taken of local and provincial budgets. However, the figures given above give some idea of the role played by the budget deficits in generating inflationary pressure in some countries of the Asia and the Far East region. Other factors, such as, high rates of investment, and a high level of exports had limited scope for generating inflationary pressure. For instance, during and for some time after the war there was little scope for expansion of private investment as it was strictly controlled. In 1947 and 1948, the relaxation of controls gave some stimulus in certain countries, particularly in India, for high rates of private investment which seemed to have contributed to inflationary pressure.

It is interesting to study how currency-circulation and retail prices behaved under the stress of inflationary pressure. The way in which they behaved in the period immediately after the War is known from the table shown below. The table shows in terms of index-numbers, the movement of currency-circulation, the movement of retail prices and the ratio of currency circulation to retail prices, that is to say, the movement of the real value of cash holdings.
Index of Currency-Circulation, retail prices and real value of cash holdings.  

<table>
<thead>
<tr>
<th>Country</th>
<th>Base</th>
<th>Index of currency circulation</th>
<th>Index of Retail prices</th>
<th>Index of real value of cash holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burma</td>
<td>1938</td>
<td>476.7</td>
<td>444.7 (Dec)</td>
<td>365.9 (Dec)</td>
</tr>
<tr>
<td>Ceylon</td>
<td>1938</td>
<td>834.5</td>
<td>849.2</td>
<td>261 (Aug)</td>
</tr>
<tr>
<td>China</td>
<td>1937</td>
<td>2,187.5</td>
<td>8,497,600</td>
<td>30,000 (May)</td>
</tr>
<tr>
<td>Indo-China</td>
<td>1939</td>
<td>1,337</td>
<td>2,802</td>
<td>3,966 (Dec)</td>
</tr>
<tr>
<td>Japan</td>
<td>1937</td>
<td>2,826 (June)</td>
<td>10,026 (June)</td>
<td>30,020 (June)</td>
</tr>
<tr>
<td>Philippines</td>
<td>1937</td>
<td>478</td>
<td>503</td>
<td>417</td>
</tr>
<tr>
<td>Siam</td>
<td>1938</td>
<td>1,449</td>
<td>1,548 (Sept)</td>
<td>1,184 (Sept)</td>
</tr>
</tbody>
</table>

The above figures indicate that in Burma, Ceylon, Japan, the Philippines and Siam currency inflation was appreciably more than price inflation. This might be taken as an indication that the real value of the money-supply had gone up above the prewar level and inflation was held in check by price control and other measures in the countries concerned. This meant that at prevailing prices, the economy had more purchasing power or liquidity than it would appear to need. It is true that a rise in the real value of cash holdings does not necessarily mean suppressed inflation, since the real value may rise on account of a rise in per capita real income. But in this case, all available evidences...

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1. Ibid. P. 192
2. Since no retail prices are available, cost of living indices have been used in their place.
suggests that real income, if anything, fell rather than increased. This situation may be described as a fall in the velocity of circulation of money.

It should be pointed out here that since the rise in prices was somewhat underrated by the indices used (black market price being largely ignored), the figures shown above tended to exaggerate the rise in the real value of cash holdings.

In China and Indochina price inflation was more than currency inflation and, consequently, the real value of money supply went down. In such a state of hyperinflation, as in the case of China, people reduced their cash holdings to barest minimum. In other words, the velocity of circulation rose very high.

Apart from its general effect of distortion by decreasing production and the volume of trade, inflation in the A.F.E. region tended to aggravate the balance of payments problems for most countries. Attempts were made in many countries of the region to correct the disequilibrium in the payments position by under-valuation of currencies and exchange control with little or no success. For example, in China, the new gold Yuan, introduced by the Chinese national Government in place of the Chinese National Dollar, was devalued in August, 1948. Similarly the Indonesian guilder, the Indochinese piastre and the Siamese baht were devalued. In nearly every case, official exchange rates were below purchasing power parities. It was difficult to maintain official exchange rates and open or block market rates existed in varying degrees throughout the A.F.E. region.
Inflationary pressure and postwar political changes in Asia and Far Eastern countries led to a variety of economic and financial reforms. Prominent among these were currency and monetary reforms. Most of the changes resulted from the emergence of independent states and the redrawing of national boundaries.

In the prewar years, every country of the AFE region was on a foreign exchange standard based upon the currency of a western power only with the exception of Japan which, however, had a managed currency. Burma, Ceylon, Hong Kong, India, Malaya, China and Thailand were on a sterling exchange standard. Indochina was linked to the French Franc, Indonesia to the Dutch guilder and the Philippines to the United States dollar. Most of these countries maintained 100 per cent reserves in foreign assets against the currency issue, while others were on proportional reserve system. For instance, Burma, Ceylon Hong Kong, Malaya and British Borneo, the Philippines and Thailand kept 100 per cent reserve while China maintained 60 per cent, India Indochina and Indonesia 40 per cent. Therefore the supply of currency in countries of the AFE region was dependent completely or in part on the balance of payments position. In the prewar years, the issue of currency and the circulation of currencies responded to changes in the balance of payments. When the payments position showed a surplus, the currency reserves and the monetary circulation increased; when it showed a deficit, both declined. Expansion and contraction was more or less automatic. Emphasis was given on the maintenance of the external value of the currency in each of the region's countries.
Changes in the Currency System.

In postwar years great changes were introduced in the currency and credit system of the ANE region. These were possible due to the complete or partial abandonment of rigid exchange-standard and the creation of central banks in Burma, Ceylon, Pakistan, the Philippines and Indochina.

Burma - The Union Bank of Burma Act of 1947 provided a central bank to meet central banking needs. The Union Bank of Burma, established on January 4, 1948, acted as a banker's bank and fiscal agent for the Government, but had no control over the currency issue and little effective influence over the credit. The authority for issuing currency was vested in the Burma Currency Board in London. Burma had been on a 100 per cent automatic sterling-exchange standard till 1952 when, by passing a new act, the right of issuing currency was transferred to the Union Bank of Burma and the Burma Currency Board was abolished. The Union Bank of Burma now must keep a minimum international reserve equal to only 25 per cent of the total currency in circulation plus the demand-deposit-liabilities held by it. Even this 25 per cent may be waived temporarily with the approval of the President of the Union of Burma, provided final assent of the Parliament is obtained within 15 days. The international reserve may be in any currency or in gold. The Burma rupee which is now known as the "Kyat", is no longer linked to sterling.
The Philippines - After the achievement of independence in the Philippines in 1946, the Central Bank of the Philippines was established in early 1949 by the Central Bank Act of June 15, 1948. The automatic dollar exchange-standard was abandoned and an independent currency system was established. The new Central Bank has the sole right of note-issue and has wide powers for the expansion and contraction of the money-supply according to the country's requirement.

Ceylon - Before the establishment of the Central Bank of Ceylon, the Ceylonese monetary system was under the supervision of a Currency Board which maintained a 100 percent foreign exchange reserve against note-issue. After the creation of the Central Bank of Ceylon which commenced operation on August 28, 1950, the right of note issue was transferred to the new Central Bank.

Pakistan - After the partition of India on 15th August, 1947, the monetary system of India and Pakistan underwent an important change. At the time of partition Pakistan did not have its own currency system. It was, therefore, arranged that the Reserve Bank of India should continue as the currency-authority of Pakistan until it established its own currency system.

Indian money which circulated in Pakistan lost its legal tender character on the 30th September, 1948. The Pakistan currency began to circulate in that country after the inauguration of the State Bank of Pakistan in July 1948. The State Bank of Pakistan has the sole right of note-issue which must be backed fully by a reserve held in a separate Issue-Department, at least 30 percent of which must consist of gold, silver and specified types of foreign exchange. The rest may consist of rupee assets.
Indochina. - Division of Indochina into three states, Viet-Nam, Laos and Cambodia within the French Union gave rise to a need for a new monetary system. Previously, the Indochinese piastre was the common legal tender of three states and was issued by the Bank of Indochina (the Banque de l'Indochina) which was neither a central bank nor a Government Bank. In July 1947, there was an agreement between the French Government and the Banque de l'Indochina according to which the latter lost its right of note-issue. Right of note issue was transferred to a Currency Board created in September 1948. So long as there was exchange control in Indochina, its note issue was backed by French francs, Treasury Bonds in Indochina and by advances payments to the Indochinese Treasury. In case of the suspension of the exchange control, the note issue would be backed by gold and foreign exchange. The right of note-issue was withdrawn from the Currency Board in January 1952 when the new Bank of Issue (Institute d'Emission) was established. A reserve equivalent to fifty percent of the note issue should be kept by the Bank in gold, French francs or other foreign exchange, the reserve was kept in interest paying block accounts with the French Treasury.

Indonesia. - The Java Bank acted as the sole bank of issue in Indonesia since 1923. It served as both a central bank and a commercial bank. Formerly, the Java Bank had to keep a 40 per cent reserve against bank notes and other demand liabilities in the form of gold and coins or bullion. After the attainment of independence by Indonesia.
in December, 1940, the minimum gold reserve requirement was lowered from 40 per cent to 20 per cent against liabilities in January 1951.

**Thailand** - In the prewar period, currency of Thailand was based on a gold (Sterling) exchange standard, the par rate of exchange being 0.66667 grams of fine gold per baht, or 11 baht to £1. During World War II, the convertibility of the baht into sterling was suspended in January 1942 and its gold value was reduced to 0.32339 grams of fine gold in January and again to 0.25074 grams of fine gold in April 1942. The currency authorities were empowered to issue notes against gold delivered either abroad or in Bangkok. Notes were also issued for the first time by the currency authorities against Government securities and treasury bonds.

After the occupation of Thailand by Japan, in June 1942 the baht was placed on a Yen exchange standard, the par rate of exchange being one baht to one yen. This meant a devaluation by about 36 per cent relative to the previous rate of exchange, which had been 100 baht to 155.70 yen. The Bank of Thailand with the right of note issue was established in 1942.

After the victory of the Allies, in May, 1946, the link of the baht with the yen was abandoned and the parity of the baht was fixed at 0.09029 grams of fine gold, or 40 baht to £1 and 0.925 baht to U.S. $1.00. At the same time, treasury bills were added to the list of permissible currency assets. Following the devaluation of sterling in September, 1949, the par rate of exchange was changed to 35 baht per £1 and 12.50 baht per U.S. $1.00.
China - In China, sweeping currency reform was introduced by the National Government in 1947 and 1948 to end inflation and stabilize the value of the currency. A new currency, the gold Yuan was introduced in place of the Chinese National Dollar. It was backed by a 100 per cent reserve of which 40 per cent was in foreign exchange and the rest in assets of state owned enterprises. The Chinese National Dollar was convertible into Gold Yuan at the rate of one gold Yuan to three million Chinese National Dollars. Gold content of the Gold Yuan was fixed at 0.22217 grams of pure gold, equal to US $0.25. The par rate of exchange was fixed at 4 gold yuan - U.S. $1. All gold, silver and foreign currencies held by the people were to be surrendered to the government at the official rate before a fixed date.

Upto the 31st October 1948, gold, silver and foreign exchange amounting to 663 million gold yuan was surrendered and equal amount of Gold Yuan was put into circulation. Under the new currency reform of 1948 the total note issue was limited to 2000 million gold yuan which was ten times of notes in circulation at the time of the introduction of the reform. In August 1948, when the new currency came into existence, notes in circulation were estimated to be equal to 200 million Gold Yuan at the rate 1 Gold Yuan = 3 million Chinese National Dollars. With a view to stabilizing commodity prices, prices prevailing on the 19th August in terms of gold yuan, were fixed as ceiling. An account of the civil war expenditure of the National Government was rapidly increasing for which it relied mainly on inflationary finance. By the 31st October, 1948, when the failure of the currency reform

was officially admitted by the abolition of price ceilings, the note issue stood at 1535 million gold yuan which represented an increase of 700 percent compared with the note issue on 19th August, 1948. The Government tried to curtail excess money by the sale of shares of official enterprises but the attempt failed for want of public confidence. It tried to restore public confidence by ordering unlimited conversion of gold yuan into gold bullion on November 22, 1948, but the attempt did not succeed. On account of excessive demand for the conversion, the amount of gold to be purchased by any individual was reduced to 10 oz. on the 10th December; and the sale was suspended altogether on the 24th December, 1948.

In 1949, the gold yuan notes of the National Government increased so enormously on account of heavy military expenditure that in eight months notes reached the highest peak of inflation; the gold yuan note lost all its confidence, the rate quoted by the Central Bank being: Gold Yuan 20000 = US $1.

The failure of the gold yuan forced the National Government to introduce a new currency based on the silver standard on July 2, 1949 in Cents; but the new currency lost its confidence due to unfavourable military situation.

Being driven by the communist government from the mainland of China, the National Government established itself in Taiwan (Formosa) where it introduced the Taiwan Yuan. But the rapid increase of the t'aiwuan yuan in circulation forced the currency authorities to introduce a new yuan at the rate of new Ty 1 to old Ty 40000 pegged at US $1 = new Ty 5.

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In the main land of China, the People's Government was established by the Communists in 1949. The monetary problems faced by the People's Government were, a lack of a uniform medium of exchange as eight different kinds of currency were issued by the People's Government in different areas, and huge military expenditure which caused enormous increase of notes in circulation. The problem was solved, at first, in February 1949, by exchanging People's Bank note with gold yuan notes in North China. The exchange rate was fixed at 1 Y10 = PFM. After the occupation of Shanghai by the liberation army in May 1949, the people's Government, with the issue of the People's Bank note, obtained an Unified Currency in China. With the introduction of the People's Bank rates the military control committee of Shanghai banned the use of the foreign currency in June, 1949. The People's Bank of China was not required to keep any reserve against currency issued.

Changes in currency systems of countries in the Asia and Far East region reviewed above indicate that the tendency towards managed currencies was more pronounced in the postwar period. This was possible due to the creation of new central banks in various countries, such as; Burma, Ceylon, Pakistan, the Philippines, and Thailand. Central banks of these countries were given wide powers for the expansion or contraction of currency according to the requirements of their countries. Success of a currency system which requires an element of management depends upon the general political and economic conditions of a country where a managed currency system is introduced and also on the ability and skill of the currency authorities. For example, in China, the current

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*PB*N --People's Bank Note
reform of August 19, 1948, and subsequent reforms introduced by the National Government failed due to unfavourable political and economic conditions in that country.

**Postwar monetary policy and measures.**

Countries of the APE region are underdeveloped countries. Unlike those of developed and industrial countries, there are a number of special difficulties attached to the operation of monetary policy in underdeveloped countries over and above the general economic danger of affecting output and employment more than prices. Among those special difficulties, mention may be made of the following:

1) Of the two Constitutions of money-supply, namely currency and money-deposit, the greater importance is given to the former as compared to the latter in underdeveloped countries. This makes difficult for the monetary authority to reduce the money-supply. If a central bank forces commercial banks to reduce the amount of credit, this will affect almost exclusively the relatively unimportant deposit-money. The monetary authority can reduce actual currency in circulation by a monetary purge, by allowing a balance of payments deficit to develop, or by increasing taxation. In all countries of the APE region except Ceylon and Japan, percentage of deposit money to total money-supply was below 50% in the postwar period.

2) Money and capital markets are ill-organised in the APE region. Money-market is divided into organised and unorganised sectors. Credit supplied by the unorganised sector is more important than that of the
organised sector, especially in the rural areas and for financing small business-units. Therefore the Central bank finds it difficult to control even commercial banks in their short term-lending. Moreover, the absence of a bill-market and also of borrowing from central banks makes the interbank-rate ineffective. In the AFE region owing to the slow development of a bill-market, short term-credit in the form of bills discounted constituted a very small proportion in the post-war years. For instance, they were less than 10 percent of the total deposits in Thailand and Japan, about 2 percent in India and a little over 1 percent in Pakistan in 1948.1

Many countries of the region have no capital markets and cannot avail themselves of the facilities provided by them. Capital markets play an important role by dealing in Government securities and by facilitating the open market operations of central banks. But the absence of capital markets makes it impossible for central banks to engage in open market-operations.

3) In many countries of the AFE region, important commercial banks held ample cash reserves and seldom needed accommodation from the central bank. The existence of cash reserves in excess of both legal and normal requirements made the central bank's control of credit far from effective, because commercial banks had the resources to offset the central bank's action. Cash reserves held by commercial banks were 63 percent in the Philippines, 43 percent in Thailand, 47 percent in Ceylon and 45 percent in Burma in 1945.2

United Nations, pp. 145 and 146.

2. Ibid Table 46, p. 145.
Foreign exchange banks occupy a very important position in the banking system of the region both by their numbers and by the size of their deposits and the volume of credit given by them, though their importance has declined in the postwar years. They create difficulties for central banks to control credit by replenishing their cash by borrowing either from their head offices or from money markets abroad. In order to control credit in such circumstances central banks would have to supplement their usual instruments of credit control with that of exchange control and to prohibit the import of capital from abroad.

Despite these difficulties which have been of long standing in the AFS region, there are certain trends which may make monetary policy more effective in the near future. Banking legislations passed in the postwar years in many countries of the region have given wide powers to the central banks of the region for controlling credit and for bringing commercial banks under their complete administrative control. The freedom of commercial banks has been greatly curtailed and even their day-to-day work can be interfered with. For instance, a Banking Companies Act was passed in Pakistan in 1948 to provide for the control of banking companies by the State Bank of Pakistan. The State Bank has wide powers to issue directions to the banking companies about the policy to be followed in making advances, the purpose for which advances may or may not be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged.

A general Banking Act was passed in the Philippines in July, 1948, by which preference was given to local banks over foreign banks. Foreign banks were required to obtain licences before they could carry on their business. The Act encouraged banks to invest in government securities and extended the field of banking activity. Similar acts were passed in other
countries of the AFE region to bring about changes in the banking sys-
tem for increasing the central banking control over other banks. The
objectives of postwar monetary policy in some countries of the region
are known from the nature of their currency system and from the action
of the Govt. and the central banks while in others they are stated ex-
plicitly either in acts creating central banks or in official
statements issued from time to time.

The Statutory objectives of the monetary policy in the Phili-
ippines and Ceylon have been to maintain monetary stability, both externa
and internal, to finance seasonal needs of production and trade and to
prompt economic development. In Burma, Indochina, Indonesia, Pakistan
and Thailand, objectives have been mainly to maintain internal and
external monetary stability. In Hong Kong, Malaya and British Borneo,
they are limited to one of stabilising the foreign exchange value of
their currencies. In Japan, the policy of disinflation had been adopted
in 1949 on the recommendation of the Dodge Mission; later on, owing to
the success of the budgetary policies it was changed to a policy of
and

counteracting mitigating deflation. Various monetary and fiscal measures
were adopted to attain the objectives in many countries of the region.
In order to attain the statutory objective of maintaining monetary stability, both external and internal, and "promoting the orderly growth of production, employment and real income", the Central Bank of the Philippines, in addition to its sole responsibility for the note-issue, has broad regulatory authority over the credit and exchange-operations of the banking system.

The Philippines' balance of payments which had been unfavourable in 1948, deteriorated rapidly in 1949 due to a fall in exports and outflow of a large capital. To stop the alarming drain of foreign exchange-reserves, in addition to the comprehensive system of exchange-control introduced in December, 1949, the Central Bank introduced "selective credit-control". In November, 1949, the Bank imposed 80 per cent cash margin-requirement against letters of credit covering the import of luxury and specified non-essential goods and commercial banks were prohibited from granting credit for financing such imports.

The Central Bank of the Philippines possesses a number of anti-inflationary instruments of credit-control for its use when necessary. It may use open market-operations and may alter the discount-rate in accordance with the character and terms of the credit requested and the requirements of national monetary policy. It has the power to alter the reserve requirements between 5 and 25 per cent against time-deposits and between 10 and 50 per cent against demand-deposits. In 1950, the Central Bank fixed the reserve-requirements at 18 per cent against demand-deposits, 5 per cent against time-deposits and 10 per
The Central Bank of the Philippines has power to rediscount and load against commercial paper with maturities not exceeding 180 days for trade and 270 days for bills related to agricultural or industrial production.

The Bank is authorised to make provisional short-term-advances to the government, but such advances may not exceed 15 per cent of the average government-revenues for the three preceding years and must be repaid before the end of the first quarter of the following fiscal year. In 1951, the Central Bank was permitted to make loans to the government against Government securities maturing within 15 years. The maximum limit of such loan was fixed at 200 million pesos and its uses were limited to productive purposes or payment of external debt.

During 1950, the Central Bank of the Philippines followed a policy of contracting credit and reduced its advances to commercial banks from 42.3 million pesos at the end of the same year. But in 1951, owing to its changed policy, import-restriction was liberalised and the Central Bank made liberal advances to commercial banks. In the latter half of the year, when credit was used for speculative holding of inventories of imported goods, the Central Bank of the Philippines restricted its advances to commercial banks for financing of imports.

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The economic situation in Ceylon was similar to that which existed in the Philippines. As in the Philippines, the domestic economy in Ceylon was unstable due to adverse balance of payments. Since the domestic economy was unstable and the banking system was undeveloped, a central bank was established in August 1952 to assist in both the stabilization of the economy and the growth of banking and credit facilities necessary to the country's economic development.

The Central Bank of Ceylon has wide powers to control credit operations by open market operations, by fixing and changing the reserve ratio of commercial banks and by limiting interest rates, maturities and margins on bank loans like those of the Philippine Central Bank. It may also reserve requirements of commercial banks between 20% and 40% per cent against demand deposits and between 5 and 20 per cent against time deposits. As in the Philippines, the maximum maturities for loans from the Central Bank of Ceylon are 180 days and 270 days, depending on the nature of the security, but loans may be extended up to one year at the time of deflation. The Bank is permitted to give loans to the Government to the extent of 10 per cent of the estimated revenue of the Government for the fiscal year in which they are made and must be repaid within six months.

The Central Bank of Ceylon commenced its operation in the midst of the Korean War area which was led by both a substantial export surplus and a government deficit. It was felt that the post-Korean inflation...
in Ceylon, would be temporary one and that it was better to tackle it by relaxing import-control and letting in consumer-goods to mop up the money supply rather than use of stringent monetary policy. Although the Central Bank did not at that time find that any significant volume of credit was being created for non-essential purposes, it warned the commercial banks against granting such credit as long as the inflationary danger persisted. As bank credit expanded by about the 100 per cent in the second half of 1950 as compared with the first half of the same year, the Central Bank of Ceylon raised the reserve requirements of commercial banks from 10 per cent to 14 per cent against demand deposits in January 1951. This increase of the reserve requirements had the effect of reducing excess-reserves of the commercial banks from $34.7 million to 57.4 million.

The Bank expressed the view in its Annual Report for 1950 that the Government's fiscal policy had been inflationary and therefore it strongly advised the government to reduce its expenditure and increase its revenue. In 1951, the budget was nearly balanced and inflationary pressure was reduced. The Central Bank conducted open market operations which were moderately disinflationary. In 1951 the Bank did not impose any new credit restrictions. Moreover, it changed its policy of discouraging commercial banks from bringing their overseas balances to Ceylon. The Central Bank of Ceylon decided that inflation had largely run its course and that a long run policy of encouraging the banks to invest in Ceylon could be safely started.
The State Bank of Pakistan established in July 1948, has wide powers, in addition to its sole right of note-issue, of controlling credit by open market operations, by varying the ratio of commercial banks.

The Banking companies control (Act) of 1948 empowered the State Bank to issue directives to commercial banks concerning the policy to be followed in making advances, the purposes for which advances may or may not be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged. Banks may be prohibited from entering into a transaction or class of transactions or may be required to take such actions as the State Bank may think fit.

In 1949 and 1950, the Bank made little use of its weapons of credit control to check inflationary pressure. In order to assist in the economic development of the country, the Central Bank gave loans and advances to Scheduled banks and Co-operative banks against approved securities. Credit granted by the State Bank increased from Rs.11.6 million in 1949 to Rs.37.2 million in 1950. In 1949, Banks operating within Pakistan were required to keep within the country assets amounting to 2.75 percent of the demand and time liabilities in Pakistan and in 1950 the percentage was increased to 35 per cent. The significance of it was that a substantial portion of deposits received in Pakistan should be used for loans and advances within the country.

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After the outbreak of the Korean War, as in Burma, Ceylon and Malaya, bank credit expanded in Pakistan between 50 and 100 per cent.

Though the bank rate remained unchanged at 3 percent, the State Bank charged a penalty rate of 4 P.c. on loans longer than one week but less than four weeks and 5 per cent on loans longer than four weeks to discourage loans from it except in emergency. As in Ceylon, India, and Japan, Selling of securities by the State Bank was undertaken in 1951 to combat inflationary pressure. Care was taken by the State Bank of Pakistan to curtail credit for import by imposing high margins for deposits against letters of credit.

But, at the same time, funds were provided by the Bank to commercial banks to ensure that lack of finance did not prevent the movement of exports. In 1952, in order to help the cotton exporters the State Bank of Pakistan asked the other banks to assume Rs. 90/- per maund as price of cotton and to give loans to exporters with a normal margin of 25 per cent. If the price fell below Rs. 90/- per maund, the government made good the losses to the other banks.
After attainment of independence, a Central bank known as the Union Bank of Burma was established in January 1948. Although the Union Bank of Burma served as a banker's bank and fiscal agent for the government, it had no control over the currency issue and little effective influence over credit. It had power to grant loans to commercial banks against specified types of securities and to purchase or rediscount commercial papers, but there was little demand for such service. Therefore, the Union Bank of Burma exercised little control over commercial banks, and there was hardly any market worth controlling. There was no provision by law for commercial banks to keep any minimum balances against their demand and time liabilities with the Union Bank of Burma. However, commercial banks maintained very high reserves with the Union Bank ranging from 30% to 50% of their deposits in 1949, because they had limited scope for investing funds due to troubled conditions in Burma. The bank rate remained unchanged at 3 percent since it began its operation in 1948.

The main achievements of the Central Bank, in 1948 and 1949, were the enforcement of exchange-control, the management of the public debt and the collection of statistics from commercial banks. Due to strict exchange control, allocations of foreign exchange for import trade increased from Rs.100 million in early 1949 to Rs.250 million at the end of 1949. In Burma, hardly any measures were taken besides the application of exchange-control, to implement the objectives of maintaining external stability till the end of 1951.

1. Economic Survey of Asia and the Far East, 1949 P.123
Besides changes introduced in the currency system of Burma, a legislation in 1952 reorganised the Union Bank of Burma and greatly increased its powers. In addition to its power of note issue, the Bank possesses wide powers to regulate the supply and cost of credit. Eligibility requirements of commercial paper presented to the Union Bank of Burma for purchase, rediscounting or as security for loans have been liberalised by the new Act. Maximum acceptable maturities have been increased from 90 to 180 days in the case of bills connected with domestic trade. The Bank recently fixed its discount rate at 2 per cent for advances against government securities and at 3 per cent for loans against other kinds of securities.

The new Act imposes no restriction on the Union Bank's holdings of Government securities. Like the Central Bank of Ceylon, the Bank may underwrite issues of Government securities or may subscribe to new issues.

The Union Bank of Burma has the power to change the reserve requirements of commercial banks between 8 and 40 per cent against demand deposits and 3 and 15 per cent against time-deposits. Reserves should be held ordinarily as cash deposits with the Central Bank, but the Bank may at its discretion permit any part of the reserve to be held in the form of other assets.

Like the Central Banks of the Philippines and Ceylon, the Union Bank of Burma also has several instruments of credit-regulation which may be applied with the approval of the President of the Union of Burma. It may set the maximum rates of interest which commercial banks may charge for loans and pay on various classes of deposits, maximum maturities for loans and advances made by commercial banks and the types of securities required for them and minimum cash margins for opening letters of credit by banks.
CHINA (MAINLAND)

With the establishment of the People's government in the mainland of China, in October 1949, the People's Bank of China was confronted with the hyper-inflation generated in earlier years. After obtaining a unified currency system, it undertook the sole responsibility of note issue in the areas under the control of the People's Government.

With a view to mitigating the effects of inflation, the People's Bank introduced the parity deposit system in 1949. According to this system, deposits were calculated in terms of Commodity Units. Each commodity unit in Shanghai consisted of 1.55 catties of medium grade rice, one jin of cotton fabric, one ounce of peanut oil and one chatty of coal briquettes. By this system people would deposit and draw bank notes in terms of commodity units to prevent loss from depreciation of the money values. Prices of commodity units in terms of People's Bank notes were announced daily. To prevent large withdrawals when the value of the parity deposit was falling, deposits received were mainly fixed period-deposits and maxima were placed on the amount of withdrawal within a given period. Deposits were also received and accounts maintained in foreign currency which were convertible into People's Bank notes at the rates prevailing at the time of withdrawal. These measures were taken to reduce the amount of currency in circulation. In May 1950, the currency-deposit and the parity-deposit were combined, so that, a depositee, on maturity of the deposit, could withdraw his principal and interest in terms either of People's Bank notes or a parity-deposit-unit, whichever was higher.
In order to control credit, the People's Bank of China compelled commercial banks to keep balances with it amounting to between 7 and 15 per cent of current deposits and between 3 and 6 per cent of fixed deposits. Moreover commercial banks were required to keep a cash balance of 10 per cent on current deposits and 5 per cent on fixed deposits. In November, 1950, with a view to check inflation, all sums deposited by publicly operated units were frozen by the People's Bank which introduced the check certification procedure to screen all payments by public organizations. This had the great effect of reducing the amount of funds moving from the Government into the market. By 1950, inflation had been to a large extent brought under control and relative internal price stability was achieved in the areas under the control of the People's Government.

From the preceding review, it is seen that different countries of the Asia and the Far East region used different measures as instruments of monetary policy. Of these measures, selective credit control, moral suasion and supervision of commercial banks were used most widely. In the context of the Korean War, they could not hold down prices as it was expected. In the post-Korean period, the objective of monetary policy in most countries of the region was less ambitious. It was merely to check money supply and credit from expanding unduly and also to prevent a runaway inflation being generated by the secondary wave of money inflation.