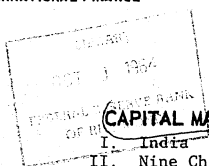


H. 13

No. 164

September 23, 1964.

**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. India
- II. Nine Charts on Financial Markets Abroad
- III. Latest Figures Plotted in H. 13 Chart Series
- IV. Special Annex, Weekly Charts on Financial Markets Abroad: Notes and Sources of Data

I. India: Money and Capital Markets--Second and Third Quarters of 1964

During the second and third quarters, Indian financial authorities took further restrictive actions to contain expansionary pressures in the economy. In April and again in July, the Reserve Bank imposed margin and credit ceilings on loans secured by certain agricultural commodities whose prices have risen sharply, especially wheat and vegetable oils. On August 17, in response to Reserve Bank recommendations in March, banks raised time deposit rates. On August 31, Governor P.C. Bhattacharyya, in a speech to Bombay bankers, again urged that there be a re-adjustment in the structure of deposit rates. This was interpreted as the suggestion for a further increase in rates. In addition, the increase in the legal reserve ratio from 20 to 28 per cent announced two years ago finally came into force on September 16. On September 26 the Reserve Bank raised the bank rate to 5 per cent from 4.5 per cent established on January 3, 1963.

The continuation of the restrictive policy during the slack season reflects concern over further inflationary pressures in certain sectors of the economy. In particular, a sharp rise in the prices of foodgrains and other agricultural products due to shortages has increased the level of wholesale prices; there has also been a substantial rise in the gold price in the Bombay market. However, since the beginning of the slack season in May, bank credit has declined, deposits and holdings of government securities have increased and borrowings from the Reserve Bank were sharply reduced by June. Money supply also decreased slightly in May and June but was at a much higher level than in March. Although day-to-day inter-bank money rates decreased during the second quarter, they were higher than in the previous two years. The average rate of discount for Treasury Bills rose to a 3-year high during most of the second quarter.

Perhaps the most disturbing price increases have been in foodgrains and certain agricultural products. Although the government estimated that production, stocks and imports of foodgrains would be adequate, there has been a steady increase in prices, particularly in certain regions. In addition to shortages, the fear of shortages has tended to increase prices further.

Gold prices rose sharply and almost reached the high attained in 1962 just prior to the Chinese communist invasion. Stock prices decreased steadily throughout the second quarter and have revived slightly in July and August. Demand for securities may have been strengthened slightly by purchases of the Unit Trust and could be strengthened further by the forthcoming operations of the Industrial Development Bank.

OFFICIAL USE ONLY

(Decontrolled after 6 months)

The cumulative restrictive measures taken by the monetary authorities since March reflect their willingness to take appropriate action against inflationary pressures. However, the Reserve Bank feels that monetary and credit policies should be re-enforced now by substantial government measures to help reduce excess liquidity by (1) reducing government expenditures even if this means elimination of less essential development projects; (2) preventing increases in wage rates to contain rising industrial costs; and (3) increasing agricultural taxes and tax collections to increase government revenues. Also, the Reserve Bank indicates that there should be a sizeable increase in consumer goods production, especially in agricultural products, if additional investments are to be made without increasing inflationary pressures.

The Reserve Bank directors note that these steps will be difficult because the government is committed to large industrial development and defense expenditures and to policies which will benefit low-income groups such as workers and farmers. Furthermore, economic conditions have worsened in recent years as agricultural production especially foodgrains has lagged behind population growth. Industrial production from January to May 1964 declined a record 6.9 per cent and was 0.5 per cent less than in May 1963.

Money markets. During the second quarter of 1964, short-term money rates declined seasonally to levels considerably higher than those of the previous two years. Although the inter-bank call money rate declined sharply from a penalty rate of 6.52 per cent in the first week of April to 2.44 per cent by the end of June, the rate was unseasonably high for April and May. (See Table 1). After June, the rate decreased sharply and was 0.50 per cent at the end of July. The erratic changes in the July rates were caused by strikes and slow-downs of bank employees.

The average rate of discount for auction sales of Treasury Bills remained firm at 3 per cent from April to the third week of June. Thereafter it decreased sharply to 2.399 per cent by the end of July and strengthened to 2.400 per cent by the end of August. (See Table 2).

The total amount of Treasury Bills outstanding at the end of June 1964 was 12.9 per cent higher than the previous year, rising from 13.91 to 15.71 billion rupees: the rise in the corresponding period from 1962 to 1963 was 8.3 per cent.

For the second quarter, gross sales of Treasury Bills to the public increased from Rs. 408 million in 1963 to Rs. 581 million in 1964, a rise of 42 per cent. During the same period, gross purchases by the Reserve Bank in the second quarter increased about 10 per cent or Rs. 1.3 billion. Total Treasury Bills outstanding increased about 13 per cent. By the end of June, net claims on the government by the Reserve Bank were about 10 per cent higher than in June 1963.

When borrowing quotas were tightened in March 1964, the Reserve Bank advised banks to consider an increase in interest rates offered for time deposits. It was thought this would attract more savings and might help the banks meet increased credit demands, fulfill increased liquidity requirements on September 16 (from 20 to 28 per cent), and even reduce reliance on borrowings from the Reserve Bank. As a result, on August 17, banks increased interest rates on time deposits by 0.25 to 1.00 percentage points for various periods exceeding 7 months to 7 years and more. (See Table 3).

On August 31, 1964, P.C. Bhattacharyya, Governor of the Reserve Bank urged banks to increase interest rates on deposits, increase investment in government securities and restrict long-term advances to industry. This suggestion is designed to encourage a shift of savings from non-bank financial institutions (which have offered higher deposit rates) into the banking system. The appeal to banks to increase their investments in government securities refers to the increase in legal reserves and the higher interest rate offered on government securities.

Table 1. India: Inter-Bank Call Money Rate in Bombay ^{a/}
(in per cent per annum)

<u>Quarter</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
I	4.72	5.64	5.67
II	3.59	4.46	5.12 ^{b/}
III	2.72	2.01	
IV	3.75	2.93	

Month

January	4.49	4.86	4.96
February	4.62	5.84	5.82
March	5.05	6.22	6.23
April	4.19	5.00	6.06
May	3.70	4.88	5.63
June	2.88	3.51	3.66 ^{b/}
July	1.80	1.35	1.50 ^{b/}
August	2.20	2.10	2.30

Week ending in 1964

January	3	4.46	April	3	6.52	^{b/} July	3	2.20
	10	5.09		10	6.34		10	.99
	17	5.15		17	6.08		17	2.56
	24	5.38		24	5.61		24	1.23
	31	5.22	May	1	5.51		31	.50
February	7	5.58		8	5.73	^{b/} August	7	2.75
	14	6.04		15	6.02		14	3.27
	21	5.82		22	5.93		21	1.30
	28	5.68	^{b/} June	5	4.42		28	1.89
March	6	6.02		12	4.46			
	13	6.18		19	3.32			
	20	6.32		26	2.44			
	27	6.45						

^{a/} Average of Fridays; weighted by deposits.

^{b/} Provisional

OFFICIAL USE ONLY

Table 2. India: Treasury Bills and Reserve Bank Claims on Government
(in billions of rupees)

	Average Rate of Discount for Auction Sales in Per Cent Per Annum	Total Outstanding	Gross Sales ^{a/}		Other Reserve Bank Claims on Gov't. ^{b/}	Total Reserve Bank Claims on Gov't. (net) ^{b/c/}
			To Public	To Reserve Bk.		
1962						
I	2.56	11.75	.288	11.50	11.06	22.56
II	2.57	12.84	.469	12.37	11.51	23.88
III	2.37	12.04	.514	11.53	11.00	22.53
IV	2.35	11.70	.361	11.35	12.32	23.67
1963						
I	2.36	13.00	.297	12.74	12.01	24.75
II	2.35	13.91	.408	13.50	12.46	25.96
III	2.32	13.00	.853	12.25	12.57	24.82
IV	2.31	13.81	.646	13.19	13.15	26.34
1964						
I	2.38	13.82	.315	13.54	13.42	26.96
II	3.00	15.71	.581	14.89	13.68	28.58
1964						
January	2.32	13.85	.113	8.22	18.59	26.88
February	2.34	13.62	.106	1.75	27.09	26.89
March	2.49	13.82	.096	3.58	23.38	26.96
April	3.00	13.89	.115	8.26	20.12	28.38
May	3.00	14.79	.142	2.63	26.00	28.63
June	3.00	15.71	.324	4.27	24.31	28.58
d/ July	2.57	15.63	.507	8.13	19.75	27.88
d/ August	2.40	15.46	.330	3.15	---	---

a/ Includes intermediate Treasury Bills.
b/ Includes Central and State Government claims.
c/ Claims on government net of deposits.
d/ Provisional.

OFFICIAL USE ONLY

Table 3. India: Change in the Structure of Interest Rates on Savings Deposits
(in per cent per annum)

<u>Period of Deposit</u>	<u>Previous Rate</u>	<u>New Rate from August 17, 1964</u>
From 3 days to 30 days	3.00	3.00
From 31 days to 60 days	3.25	3.25
From 61 days to 90 days	3.50	3.50
From 91 days to 7 months	3.75	3.75
From 7 months to 12 months	3.75	4.00
From 1 year to 2 years	4.00	4.25
From 2 years to 3 years	4.25	4.50
From 3 years to 4 years	4.25	4.75
From 4 years to 5 years	4.50	5.00
From 5 years to 6 years	5.00	5.50
From 6 years to 7 years	5.00	5.75
From 7 years and over	5.00	6.00

Banking developments. With the beginning of the slack season in May, bank credit declined only Rs. 418 million or 2.7 per cent during the second quarter. However, borrowings from the Reserve Bank decreased Rs. 814 million as the banks increased deposits by Rs. 1 billion and bought Rs. 153 million of government securities.

The decline in bank credit in the current slack season thus far is only 11.5 per cent of the increase in bank credit during the last busy season, compared with the 27.8 per cent decrease in 1963. Even though deposits rose by Rs. 1.065 million in July and August, banks slightly increased borrowings from the Reserve Bank in July; they made purchases of new central government bond issues offered in July, increasing their holdings by Rs. 1.486 billion.

Table 4. India: Scheduled Banks - Changes in Deposits, Borrowings from Reserve Bank and Principal Assets
(in millions of rupees)

		<u>Deposits</u>	<u>Per Cent Change</u>	<u>Bank Credit</u>	<u>Per Cent Change</u>	<u>Holdings of Gov't. Securities</u>	<u>Per Cent Change</u>	<u>Borrowings from Reserve Bank</u>
<u>Quarter:</u>								
1962	I	+ 913	5.0	+1,314	10.3	+ 217	3.7	+343
	II	+1,025	5.3	+ 97	.7	+ 63	1.0	-515
	III	+ 221	1.1	- 381	- 2.7	+ 827	13.6	+ 30
	IV	+ 11	.1	+ 432	3.1	- 379	- 5.5	+162
1963	I	+ --	--	+1,656	11.6	- 597	- 9.2	+506
	II	+ 972	4.8	- 587	- 3.7	+ 603	10.2	-701
	III	+ 725	3.4	- 773	- 5.0	+1,272	19.5	+ 7
	IV	+ 402	1.8	+1,284	8.8	- 708	- 9.1	+ 62

OFFICIAL USE ONLY

Table 4. (cont.)

<u>Table 4. (cont.)</u>							Borrowings	
		<u>Deposits</u>	Per Cent <u>Change</u>	Bank <u>Credit</u>	Per Cent <u>Change</u>	Holdings of <u>Gov't. Securities</u>	Per Cent <u>Change</u>	from <u>Reserve Bank</u>
1964	I	+ 291	1.3	+2,342	14.8	- 698	- 9.8	+745
	II	+1,000	4.4	- 418	- 2.7	+ 153	2.4	-814

Month:

1964	Jan. +	265	1.2	+1,084	6.9	- 264	- 3.7	+280
	Feb. +	46	.2	+ 699	4.1	- 323	- 4.7	+311
	Mar. -	17	.1	+ 558	3.2	- 115	- 1.7	+254
	Apr. +	373	1.6	+ 279	1.5	- 247	- 3.9	-117
	May +	185	.8	- 196	- 1.1	+ 68	1.1	-108
	June +	443	1.9	- 502	- 2.7	+ 333	5.4	-326
	July +	565	2.4	- 448	- 2.5	+1,063	16.2	+ 8
	Aug. +	500	2.1	- 76	.4	+ 423	5.6	- 1

Central Government bonds. During the second quarter, the average gross yield of long-term central government securities decreased from 4.76 per cent to 4.70 per cent. (See Table 4).

From July 3 to July 5, the government offered subscriptions totalling Rs. 1.5 billion in two bond issues, a 4 per cent loan at 99, repayable at par on April 15, 1970, and a 4.75 per cent loan at 100, repayable on April 15, 1989. Both of these issues were also offered in April as conversion issues to two maturing loans totalling Rs. 1.9 billion. At that time Rs. 1.4152 billion of the maturing issues was converted. On July 15, 1964, the two issues were over-subscribed by Rs. 10 million. Purchases totaled Rs. 1.51 billion: Rs. 1.06 billion in the 1970 maturity and Rs. 450 million in the 1989 issue. Total borrowings during the current year amounts to Rs. 2.9 billion or just Rs. 24.8 million short of the budgeted loan amount of Rs. 2.95 billion.

The success of the issues is explained in part by the higher interest rates of the 25 year bonds at 4.75 per cent compared to the July average yield on long-term bonds at 4.70 per cent.

Table 5. India: Yield on Long-Term Government Securities
3 per cent 1986 or later
(in per cent per annum - period averages)

	1961	1962	1963	1964
I	4.04	4.23	4.75	4.68
II	4.10	4.23	4.73	4.73
III	4.13	4.34	4.66	
IV	4.18	4.65	4.57	
1964 - January	4.58	April	4.75	a/ July 4.70
February	4.70	May	4.72	a/ August 4.73
March	4.75	June	4.71	

Table 5 (cont.)

OFFICIAL USE ONLY

-7-

Selected Dates - 1964

January	3	4.57	April	3	4.76	a/	July	3	4.70
	10	4.57		10	4.76			10	4.70
	17	4.57		17	4.75			17	4.70
	24	4.59		24	4.75 ^o			24	4.70
	31	4.60	May	1	4.74			31	4.70
February	7	4.64		8	4.73	a/	Aug.	7	4.71
	14	4.74		15	4.72			14	4.72
	21	4.73		22	4.70			21	4.75
	28	4.74		29	4.71			28	4.75
March	6	4.74	June	5	4.71	a/	Sept.	4	4.73
	13	4.74		12	4.71				
	20	4.75		19	4.71				
	27	4.76		26	4.70				

a/ Provisional.

State bonds. Under the new policy of separating central and state government borrowings, thirteen state governments jointly announced their programs to borrow Rs. 1 billion (\$210 million) at 4.75 per cent on 12 year bonds. Although public subscriptions were open for the week of August 24, most issues were closed in the first few days due to oversubscription; on August 28, all subscriptions were closed. Total subscriptions reached Rs. 1.097 billion.

Two issues were sold at par, three at Rs. 99.75 and eight at Rs. 99.50 which accounts for yields of 4.75, 4.76 and 4.77 per cent, respectively. These offerings contributed to the rise in yield of central government issues to 4.75 per cent during August. Five states offered conversion facilities for maturing securities totaling Rs. 209.6 million but only Rs. 38.7 million were converted.

It is reported that half of the state government securities were subscribed by the government owned Life Insurance Corporation (Rs. 200 million), State Bank (Rs. 100 million) and various commercial banks (Rs. 200 million). About 10 per cent or Rs. 100 million was subscribed by various semi-governmental agencies such as port trusts and apex cooperatives. The remainder, or about 40 per cent, was purchased by the general public and the Reserve Bank.

It is expected that the state government issues will be traded at various discounts because some of the original subscribers who have business dealings with the state governments will wish to sell their holdings to repay bank advances. As a result, banks and other financial institutions are expected to hold the vast majority of state government bonds at higher yields than the nominal 4.75 per cent.

Money supply. During the past three fiscal years (ending March 1964), money supply increased 30.4 per cent while national income at constant prices increased 10 per cent and consumer prices increased 10.5 per cent. Since 1961-62, the first year of the third plan, the annual rates of increase in

OFFICIAL USE ONLY

money supply are 6.2, 8.6, and 13.0 per cent while the corresponding annual rates of increase in national income are 2.6, 2.4 and 4.9^{1/} per cent and for consumer prices 2.4, 3.1 and 4.6 per cent.

After hitting a high of 18.2 per cent in the annual rate of increase in money supply for February, the rate decreased sharply to 12.6 per cent by April and then increased slightly in May and June. However, the increase in money supply for the 6 month period, January to June 1964, was 7.3 per cent or slightly lower than the 7.7 per cent expansion in the corresponding period of the previous year.

Table 6. India: Money Supply with the Public

<u>Quarter:</u>	<u>In billions of rupees -</u>				<u>Annual Rate of Change (%)</u>			
	<u>Last Friday of Period</u>							
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
I	28.74	30.53	33.17	37.49 ^{a/}	5.5	6.2	8.6	13.0 ^{a/}
II	28.36	30.52	33.70		4.0	7.6	10.4	13.3 ^{a/}
III	27.48	30.06	33.68		3.4	9.4	11.9	
IV	28.40	31.21	35.50		4.8	9.9	13.5	
<u>Month:</u>	<u>1962-63</u>	<u>1963-64^{b/}</u>	<u>Annual Rate of Change (%)</u>					
September	30.03	33.60	11.9					
October	30.45	34.30	12.6					
November	30.66	34.53	12.6					
December	31.21	35.41	13.5					
January	31.79	36.45	14.7					
February	31.18	36.86	18.2					
March	33.17	37.49 ^{a/}	13.0					
April	34.08	38.38 ^{a/}	12.6					
May	33.78	38.37 ^{a/}	13.6					
June	33.63	38.09 ^{a/}	13.3					

^{a/} Provisional.

^{b/} Money supply figures have been revised since the last report.

Stock market. The official index of stock prices which declined sharply in reaction to new and revised tax measures contained in the budget message of February 29, continued to decline up to the second week of June. (See Table 7). In response to some favorable corporate profit reports and reported portfolio purchases by the Unit Trust, stock prices rose by the second week of July, recovering almost all the decline since mid-April. Prices weakened into the first week of August and rose in late August to a level attained in mid-March, but this was still 3.4 per cent below the level of 174.3 attained on the eve of the budget message. This is confirmed by the unofficial index of securities prices which was 4.3 per cent lower than at the end of February.

^{1/} Preliminary estimate by the Economic Times, August 10, 1964, p. 1. In addition, on August 25, 1964, the Central Statistical Organization reported a 4.3 per cent increase in national income for 1963-64.

Table 7. India: Price Index of Variable Dividend Industrial Securities
(1952-53 = 100)

<u>Quarter Averages</u>		<u>1962</u>	<u>1963</u>	<u>1964</u>			
	I	190.0	167.4	170.4			
	II	192.6	162.9	163.7 <u>a/</u>			
	III	185.0	162.5				
	IV	173.6	172.7				
<u>Monthly Averages</u>							
1964	January	170.9	April	165.8	July	164.7 <u>a/</u>	
	February	170.7	May	163.4	August	165.7 <u>a/</u>	
	March	169.6	June	161.9 <u>a/</u>			
<u>Selected Dates - 1964</u>							
		<u>Official</u>	<u>Unofficial</u>		<u>Official</u>	<u>Unofficial</u>	
April	4	167.1	112.9	July	4	165.1	110.4
	11	166.8	112.5		11	165.3	111.2
	18	165.8	112.2		18	164.5	110.4
	25	163.7	110.2		25	163.9	109.4
May	2	165.1	110.8	August	1	163.9	109.2
	9	164.3	110.0		8	164.5	109.7
	16	163.6	108.4		15	165.0	109.8
	23	162.6	107.5		22	166.9 <u>a/</u>	111.8
	30	161.4	106.9		29	168.4 <u>a/</u>	113.6
June	6	161.4	107.1	Sept.	4		113.5
	13	160.9	106.6				
	20	161.5	107.1				
	27	164.0	109.2				

a/ Provisional.b/ Official index numbers refer to Indian Government statistics while the unofficial data refers to the Economic Times, Ordinary Shares Price Index, 1959-60 = 100.

New Financial Institutions. On July 1, the Unit Trust began selling its shares and the Industrial Development Bank was established.

Unit Trust (UT). According to R.S. Bhatt, chairman of the Unit Trust, the initial capital of Rs. 50 million (\$10.5 million) collected since the establishment of the Unit Trust on February 1, 1964, enabled the Trust to purchase a balanced portfolio of investments with an average yield of over 6 per cent.

To inaugurate the public sale of unit shares, on July 1, India's Finance Minister bought the first 10 shares at the par value of 10 rupees. Applications for unit shares at par were accepted up to August 14. After August 14, the price of unit shares will be fixed by the trust based upon security prices quoted on the stock exchanges. By early September shares were selling at Rs. 10.40. Dividends are to be paid after an annual accounting on June 30 of each year. According to reports the shares have become popular.

To broaden public sales of unit shares, the Unit Trust has authorized commercial banks who have contributed to the initial capital of the Trust to sell shares through their 4,000 offices. In addition, certain stock brokers have also been licensed to sell shares.

Industrial Development Bank (IDB). The IDB, established on July 1, acquired 50 per cent of the capital stock of the Industrial Finance Corporation (IFC) on August, and took over the Refinance Corporation for Industry (RCI) on September 1. These steps (envisaged in the authorizing legislation) are designed to eliminate duplication of functions and to expand long-term financing facilities to industry.

The capital structure of the IFC was set up in two ways. First, of the total 14,000 shares at Rs. 5000 each (amounting to Rs. 70 million or \$14.7 million), the Government and the Reserve Bank transferred their 5,664 shares valued at Rs. 28.32 million (\$5.95 million or about 40 per cent) to the IDB. This was merely an administrative change since the IDB is a wholly-owned subsidiary of the government-owned Reserve Bank. Secondly, the IFC issued 2,692 new shares valued at Rs. 13.46 million (\$2.83 million) to the IDB. This increased IFC capital to Rs. 83.56 million (\$17.55 million) or 16,692 shares of which the IDB held 8,356 shares or Rs. 41.78 million (\$8.77 million). The other half of the shares of the IFC are held by the government-owned Life Insurance Corporation and scheduled and cooperative banks.

Under the new arrangement, the chairman and two directors of the IFC are to be appointed by the central government, four directors by the IDB and six directors from other shareholders, another feature is that the dividends due to the IDB from the IFC will be credited to the newly created Special Reserve Fund.

While these changes in the institutional framework of the capital market portend long-term improvements, there may be some difficult adjustments. The IFC, which has independently acquired experience and techniques in development banking over its 16 year existence, will now come under the supervision and evaluation of the IDB whose management consisting of the governor, deputy governor and board of directors of the Reserve Bank who may not have as much experience in long-term development financing. In addition, there may be a need to coordinate IFC and IDB lending policies. If for some reason the present relationship between the IDB and IFC is considered undesirable, the IFC can be taken over as a wholly owned subsidiary of the IDB by a transfer of shares.

The IDB which took over the Refinance Corporation for Industry on September 1, will pay the Rs. 25 million in paid-up capital to shareholders--the government-owned Reserve Bank, State Bank and Life Insurance Corporation and Indian and foreign banks.

Wholesale prices. From January to August 22, the official wholesale prices index increased a record 15 per cent. (See Table 8). It had risen 9.2 per cent for about the same period in 1963, 6.8 per cent in 1962 and 1.4 per cent in 1961.

The official wholesale price index indicated a 5.5 per cent increase for July and August, a 6.1 per cent increase in the second quarter and a 2.7 per cent increase in the first quarter. This is confirmed by an unofficial wholesale price index which shows increases of 5.9, 5.2 and 3.2 per cent, respectively.

Consumer prices increased 9.9 per cent for the year ending April 1964 as compared to a 2.3 per cent increase for the previous year. This subsumes wide regional differences in the increase of consumer prices. For example, the percentage increase in the consumer price index in Nagpur was 18.9, Kanpur 17.9, Bombay 14.1, Delhi 10.9, Madras 6.7 and Calcutta 4.5.

In addition, the price index conceals wide price variations between commodities. (See Table 9). For example, in the second quarter of 1964, wholesale rice prices rose 12.4 per cent, groundnuts 18.4 per cent while wheat prices declined 6.6 per cent and raw jute prices declined 4.6 per cent. In the index food items are given a weight of 50.4 per cent, industrial raw materials 15.5 per cent, manufactures 29.0 per cent. Since food prices increased 9.6 per cent, industrial raw materials 6 per cent, manufactures 0.5 per cent, the total increase in the wholesale price index was 6.1 per cent.

Table 8. India: Index Numbers of Wholesale Prices, 1952-53 = 100

	Quarterly Averages				Annual Rate of Change in Per Cent		
	1961	1962	1963	1964	1961-62	1962-63	1963-64
I	126.6	123.7	126.6	137.9	- 2.3	2.3	8.9
II	125.9	126.0	132.0	143.4	.1	4.8	8.6
III	127.0	130.4	136.1		2.7	4.4	
IV	123.9	128.3	135.3		3.6	5.5	

Monthly Average - 1964

January	136.3	April	140.3	July	150.5
February	138.1	May	143.4		
March	139.3	June	146.5		

Selected Dates - 1964

		<u>Official^{a/}</u>	<u>Unofficial^{a/}</u>			<u>Official</u>	<u>Unofficial</u>
January	4	135.8	121.3	May	2	142.1	126.9
	11	136.2	121.7		9	143.0	127.7
	18	136.3	121.7		16	143.4	127.6
	25	136.8	121.8		23	144.1	128.3
February	1	136.6	122.4	b/ June	30	144.3	128.8
	8	137.7	123.4		6	145.3	129.5
	15	138.3	124.6		13	146.3	130.0
	22	138.6	125.7		20	146.8	130.6
March	29	138.9	125.7	b/ July	27	147.8	131.7
	7	139.1	125.5		4	148.9	132.6
	14	139.6	125.3		11	150.2	133.1
	21	139.3	124.8		18	150.6	134.4
April	28	139.3	125.2	b/ August	25	152.2	135.9
	4	139.3	125.2		1	154.2	137.3
	11	140.1	125.8		8	154.4	138.4
	18	140.1	126.2		15	155.7	138.8
	25	141.5	126.9		22	156.0	139.5
					29		140.6
				September	4		141.8

a/ The official index numbers are from the Indian government while the unofficial index numbers are from the Economic Times All India Wholesale Commodity Price Index, 1959-60 = 100.

b/ Provisional.

Table 9. India: Per Cent Increase of Selected Indices of Wholesale Prices

	<u>One Year</u> <u>Ending</u> <u>June 1964</u>	<u>6 months</u> <u>January to</u> <u>June 1964</u>	<u>First Quarter</u> <u>January to</u> <u>March 1964</u>	<u>Second Quarter</u> <u>April to</u> <u>June 1964</u>	<u>July to Au-</u> <u>gust 22, 1964</u>	<u>Jan. to</u> <u>Aug. 22,</u> <u>1964</u>
1. Food	13.3	12.9	3.2	9.6	6.5	20.2
a. Rice	10.8	14.3	1.8	12.9	6.0	21.1
b. Wheat	12.5	- 0.5	6.6	- 6.6	12.5	12.0
2. Industrial Raw Materials	11.4	10.8	4.5	6.0	9.2	21.0
a. Cotton	2.4	2.1	0.5	1.6	1.6	3.8
b. Jute	- 2.0	- 1.8	2.4	- 4.6	31.6	29.2
c. Groundnuts	25.6	32.5	11.9	18.4	12.2	48.7
3. Manufactures	2.5	1.9	1.4	0.5	1.9	3.9
a. Intermediate goods	6.5	6.6	4.4	2.1	1.8	8.5
b. Finished goods	1.7	1.1	1.0	0.1	2.1	3.2
(1) Cotton	0.2	- 0.4	0.5	- 1.0	0.6	0.1
(2) Jute	- 1.8	1.2	0.7	0.5	14.6	16.0
(3) Steel	6.0	4.5	2.1	2.4	- 0.5	4.0
(4) Machinery	2.7	2.0	0.5	1.4	0.0	2.0
4. All Items	9.5	8.9	2.7	6.1	5.5	15.0

Gold market. As legislative discussions of the new gold control bill continued, the price of gold increased during the second quarter to levels higher than those attained in August 1962, just prior to the Chinese invasion. Average gold prices quoted for 14 catat gold converted to dollars per fine ounce on the Bombay gold market increased 12.2 per cent to \$79.74 in the second quarter of 1964. However, in the unofficial bullion gold market, the price increased 24 per cent to \$84.26 a record high. While gold prices in the official and unofficial markets tended to weaken somewhat in the first half of July, prices recovered to about \$80. During August, the official price rose slightly to \$81 and the unofficial prices declined to \$81. On September 4, the official price was \$80.77 and the official price stood at \$84.26.

The percentage increase of official gold prices during the quarter was about double the per cent increase in wholesale prices. Since the percentage rise in unofficial gold prices was twice the rise in official gold prices, it appears that the Indian Government has become increasingly unsuccessful in its attempts to reduce the price of gold and to encourage investment of savings in income-earning securities. Last fall, the gold price had fallen to \$65.

Table 10. India: Price of Gold Bullion in Bombay ^{a/}
(U.S. dollars per fine ounce)

<u>Quarterly Averages</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
I	78.62	79.38	66.98	72.22
II	78.54	80.60	72.10	75.95 ^{a/}
III	80.01	82.06	69.98	
IV	80.05	71.41	66.42	

Monthly Averages - 1964

January	71.77	April	73.16	July	78.13
February	73.10	May	76.38	August	80.86
March	71.84	June	78.32		

Selected Dates - 1964

	<u>Official^{a/}</u>	<u>Unofficial^{b/}</u>		<u>Official^{a/}</u>	<u>Unofficial^{b/}</u>
January 3	67.18	--	May 1	75.30	73.81
10	67.69	--	8	74.33	75.77
17	70.41	--	15	76.14	75.77
24	73.06	--	22	77.13	77.07
31	77.82	77.73	29	78.66	78.38
February 7	73.81	73.16			
14	73.68	71.85	June 5	79.11	78.38
21	72.59	69.24	12	76.48	75.11
28	72.33	69.89	19	77.97	78.38
			26	79.74	84.26

Table 10. (cont.)

Selected Dates - 1964

		Official ^{a/}	Unofficial ^{b/}			Official ^{a/}	Unofficial ^{b/}
March	6	72.93	71.20	July	3	77.63	77.07
	13	72.03	69.24		10	77.07	78.38
	20	72.22	69.24		17	77.69	80.34
	27	71.10	67.93		24	78.75	80.67
					31	79.55	81.65
April	3	70.82	69.24				
	10	71.85	72.18	August	7	80.53	83.61
	17	73.11	73.16		14	80.56	82.95
	24	74.05	75.77		21	81.12	81.65
					28	81.21	80.99
				September	4	80.77	84.26

a/ Average of Friday spot rupee quotations in 14 carat gold per 10 grams from August 28, 1963. Converted to U.S. dollars per fine ounce.

b/ Single quotations on illegal bullion market reported by Economic Times, Bombay, India. Erratic deviations of these quotations from those on the official market reflect in part the fact that they are not averages (as are the official quotations) and the varying conditions (e.g. time) under which they are collected.

Exchange rates. Free market selling rates of Indian rupee notes in Hong Kong and Bangkok depreciated sharply during the second quarter of 1964 and were at new lows. (See Table 11). In Hong Kong, the rupee depreciated 6.8 per cent and in Bangkok it depreciated 13.1 per cent during the quarter. Since the official rate is 4.7619 rupees to one U.S. dollar, or 21 U.S. cents to one rupee, the rupee was depreciated by 38 per cent in Hong Kong and by 35 per cent in Bangkok.

Table 11. India: Hong Kong and Bangkok Free Market Selling Rates of Indian Rupee Banknotes per U.S. dollar

Quarterly averages:

	Hong Kong ^{a/}					Bangkok ^{b/}			
	1961	1962	1963	1964		1961	1962	1963	1964
I	6.13	6.23	5.83	6.99		6.10	6.12	5.42	6.43
II	6.26	6.88	6.18	7.52		6.38	6.42	5.70	7.01
III	6.61	6.99	7.05			6.60	6.97	6.57	
IV	6.53	6.68	6.94			6.68	6.63	6.19	

Table 11. (cont.)

<u>Monthly averages:</u>	<u>Hong Kong ^{a/}</u>	<u>Bangkok ^{b/}</u>
January	6.86	6.47
February	6.99	6.45
March	7.12	6.37
April	7.41	6.52
May	7.51	7.19
June	7.64	7.33
July	7.91	7.45
August		7.41

^{a/} Average of month.^{b/} End of month.

International reserves. Gold and foreign exchange holdings of the Reserve Bank declined by \$63 million to \$450 million by the end of the second quarter. This touched off newspaper reports of a foreign exchange crisis in early July. Reserves stood at \$448 million at the end of August. While this is low considering India's requirements, it is not lower than the levels attained in the past two years for the same months.

During ~~the end of~~ the second quarter, the trade deficit by customs returns declined 38 per cent to Rs. 1.3 billion (\$277 million) compared to the corresponding period in 1963. This was due mainly to a 12 per cent increase in exports to Rs. 4.1 billion and a 6 per cent decrease in imports to Rs. 54 billion.

Table 12. India: Gold and Foreign Exchange Holdings of the Reserve Bank and
Foreign Exchange Holdings of the Government
 (in millions of U.S. dollars at the end of the period)

<u>Quarter</u>	<u>Reserve Bank</u>	<u>Change</u>	<u>Government</u>	<u>Change</u>	<u>Total</u>	<u>Change</u>
1962						
I	520	- 43	105	+ 3	625	- 40
II	452	- 68	55	- 50	507	-118
III	445	- 7	72	+ 17	512	+ 10
IV	451	6	61	- 11	512	- 5
		-112		- 41		-153
1963						
I	492	+ 41	128	+ 67	620	+108
II	471	- 21	136	+ 8	607	- 13
III	451	- 20	110	- 26	561	- 46
IV	469	+ 18	138	+ 28	607	+ 46
		+ 18		+ 77		+ 95
1964						
I	513	+ 44	130	- 8	643	+ 36
II	450	- 63	135	+ 5	585	- 58

Table 12. (cont.)

	<u>Reserve Bank</u>	<u>Change</u>	<u>Government</u>	<u>Change</u>	<u>Total</u>	<u>Change</u>
<u>Month - 1964</u>						
January	482	+ 13	118	- 20	600	- 7
February	507	+ 25	114	- 5	620	+ 20
March	513	+ 6	130	+ 16	643	+ 23
April	492	- 21	153	+ 23	645	+ 2
May	490	- 2	175	+ 22	665	+ 20
June	450	- 40	135	- 40	585	- 80
July	445	- 5				

Selected Dates - 1964 - Gold and Foreign Exchange Holdings of the Reserve Bank

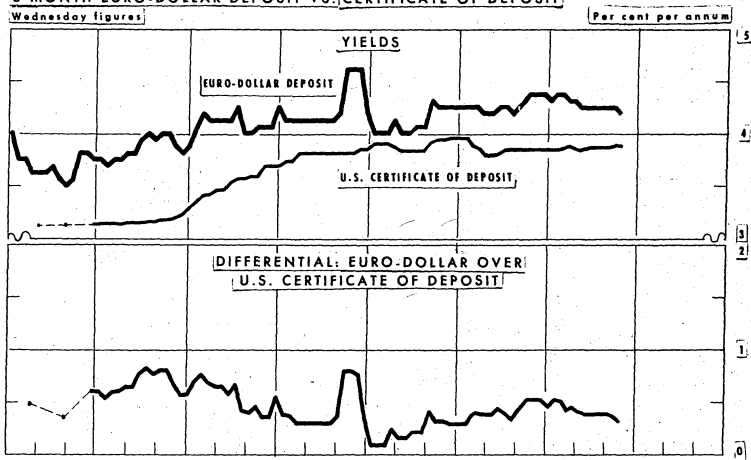
January	3	470	April	3	511	July	3	450
	10	472		10	509		10	452
	17	478		17	501		17	448
	24	482		24	492		24	442
	31	482					31	445
			May	1	484			
February	7	503		8	482	August	7	444
	14	506		15	482		14	445
	21	501		22	492		21	454
	28	507		29	490		28	448
March	6	511	June	5	476			
	13	517		12	472			
	20	530		19	459			
	27	513		26	450			

II. Nine Charts on Financial Markets Abroad

- Chart 1 - International Money Market Yields for U.S. Dollar Investors.
 Chart 2 - Interest Arbitrage, United States/Canada.
 Chart 3 - Interest Arbitrage, New York/London.
 Chart 4 - Interest Arbitrage for German Commercial Banks.
 Chart 5 - Short-term Interest Rates.
 Chart 6 - Long-term Bond Yields.
 Chart 7 - Industrial Stock Indices.
 Chart 8 - Spot Exchange Rates - Major Currencies Against U. S. Dollar.
 Chart 9 - Three-month Forward Exchange Rates.

Asia, Africa and Latin American Section

Chart 1
INTERNATIONAL MONEY MARKET YIELDS FOR U.S. DOLLAR INVESTORS
3-MONTH EURO-DOLLAR DEPOSIT VS. CERTIFICATE OF DEPOSIT
Wednesday figures



NEW YORK OFFER RATES ON SELECTED 3-MONTH INVESTMENTS
Friday figures

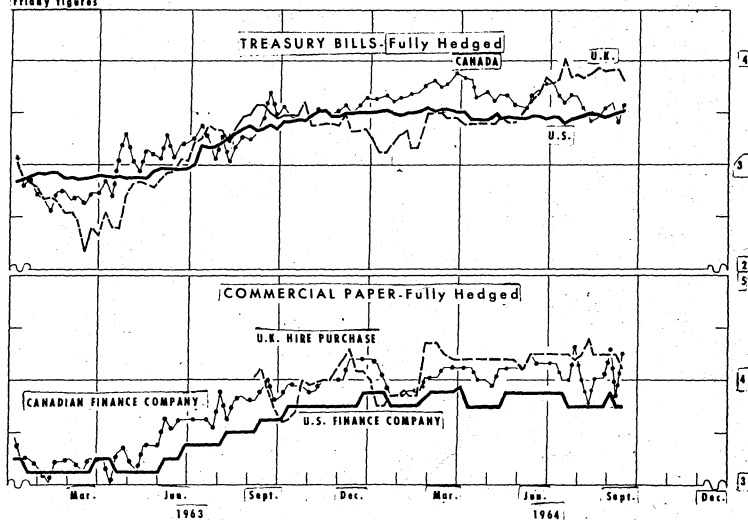
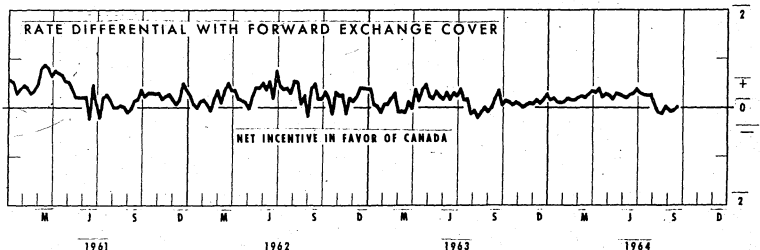
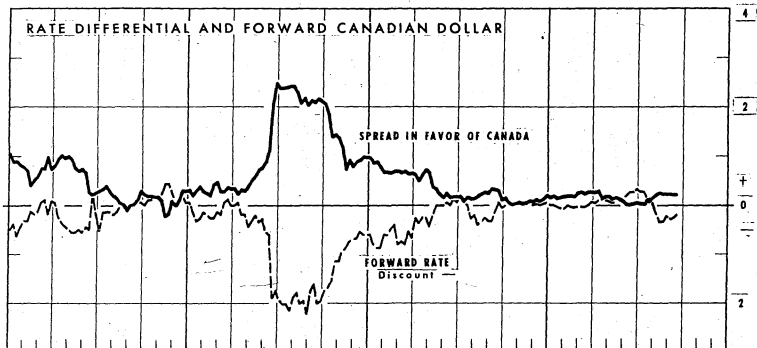
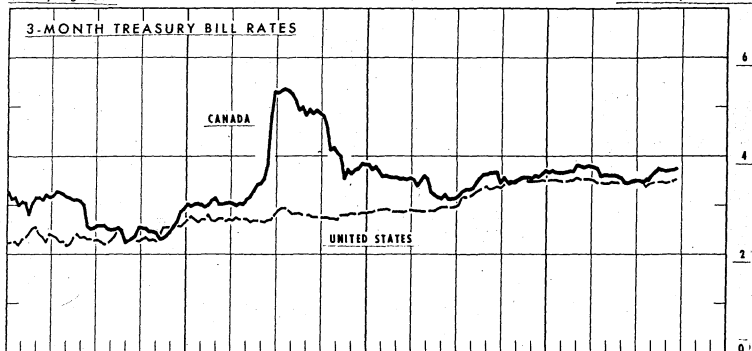


Chart 2

INTEREST ARBITRAGE, UNITED STATES / CANADA

Friday figures*

Per cent per annum



* Thursday figures 1961-1962, Friday thereafter

Chart 3
INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

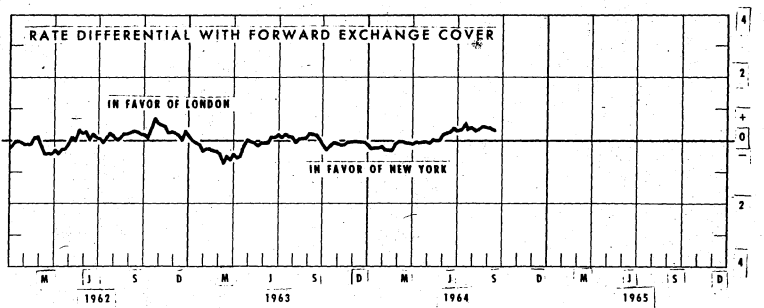
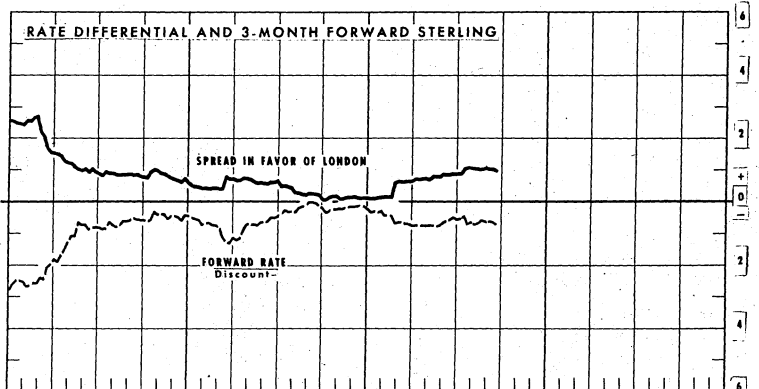
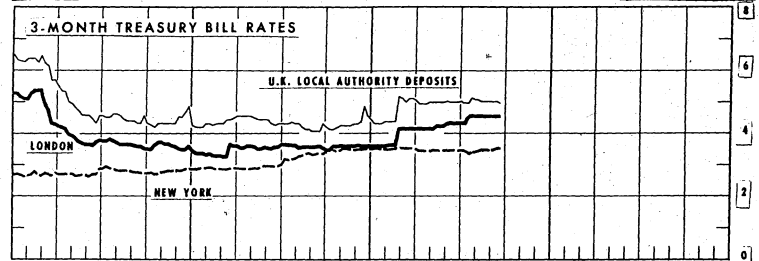


Chart 4

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum

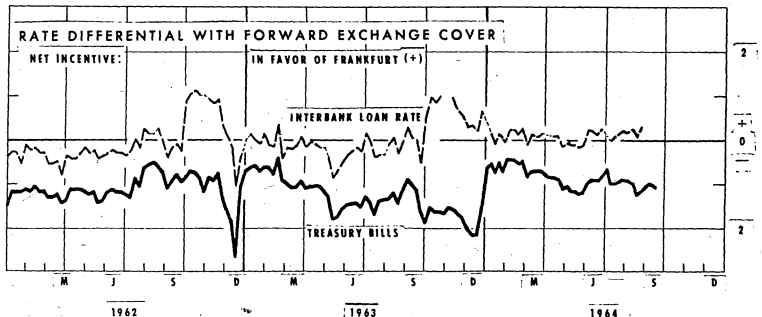
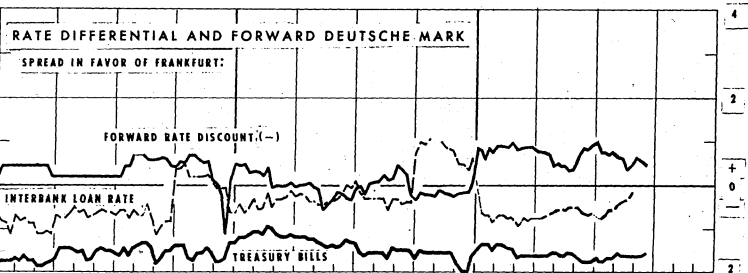
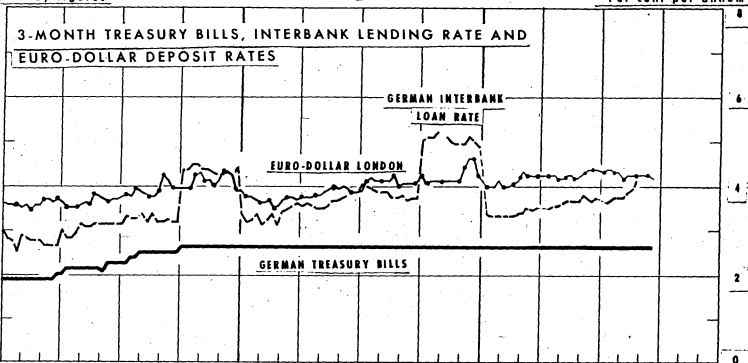
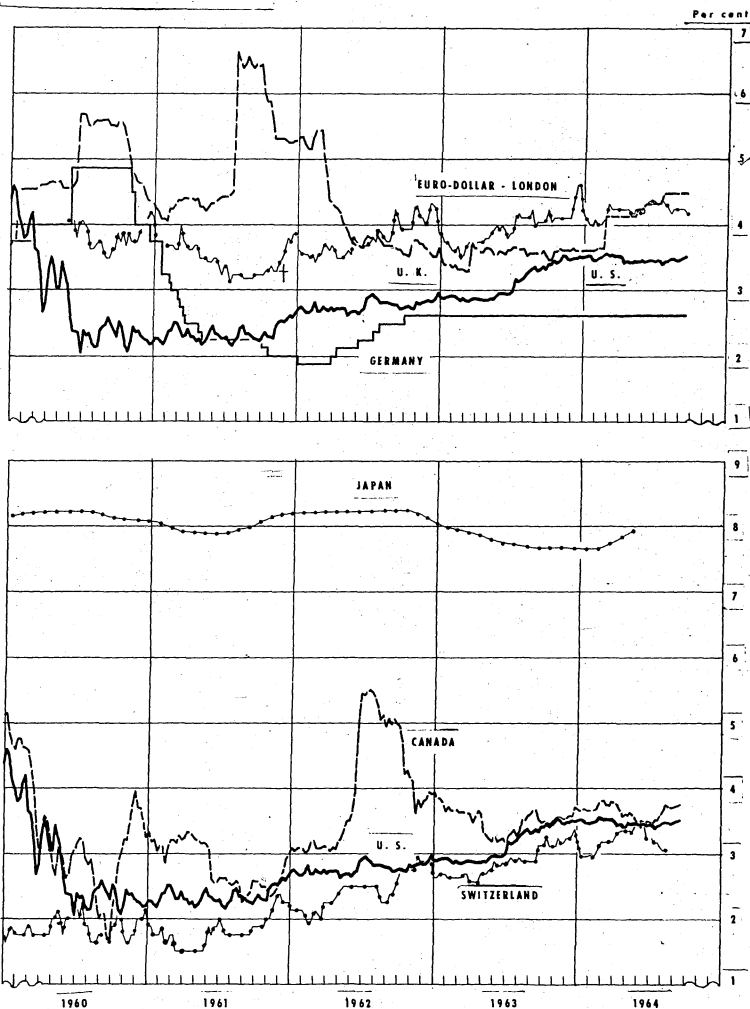


Chart 5

SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts) and Switzerland (3-month deposit rate).

† 3-month rate for U.S. dollar deposits in London.

Chart 6

LONG-TERM BOND YIELDS

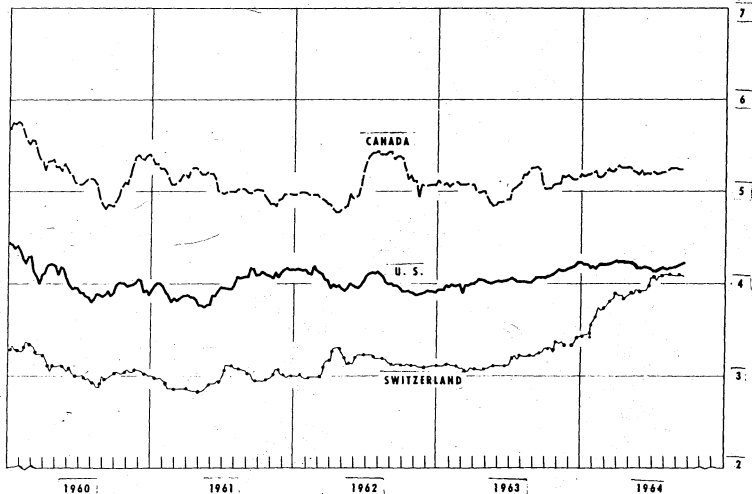
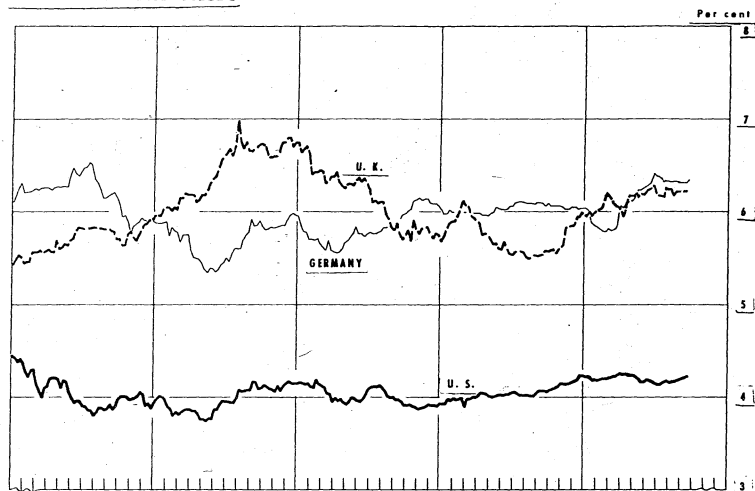
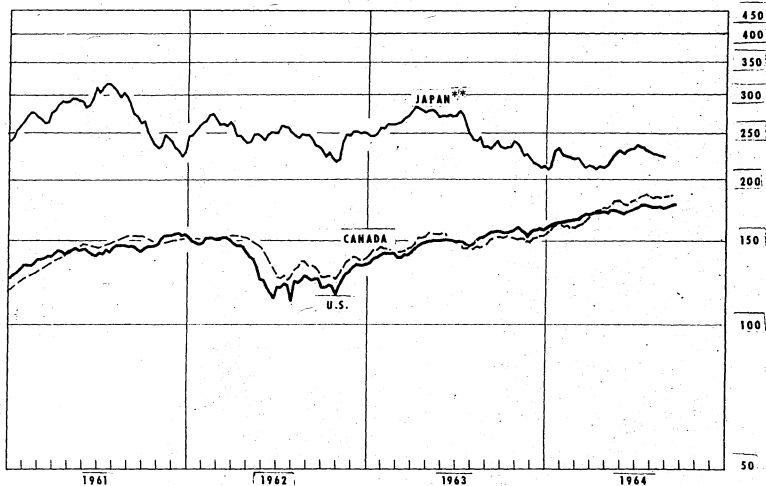
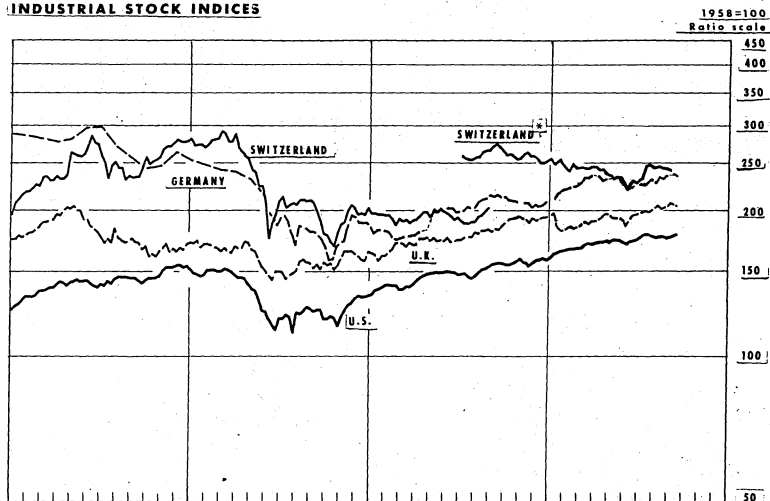


Chart 7

INDUSTRIAL STOCK INDICES



¹⁹ New series Swiss Bank Corporation industrial stock index

²⁰ Japan index of 225 industrial and other stocks traded on the Tokyo exchange

Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

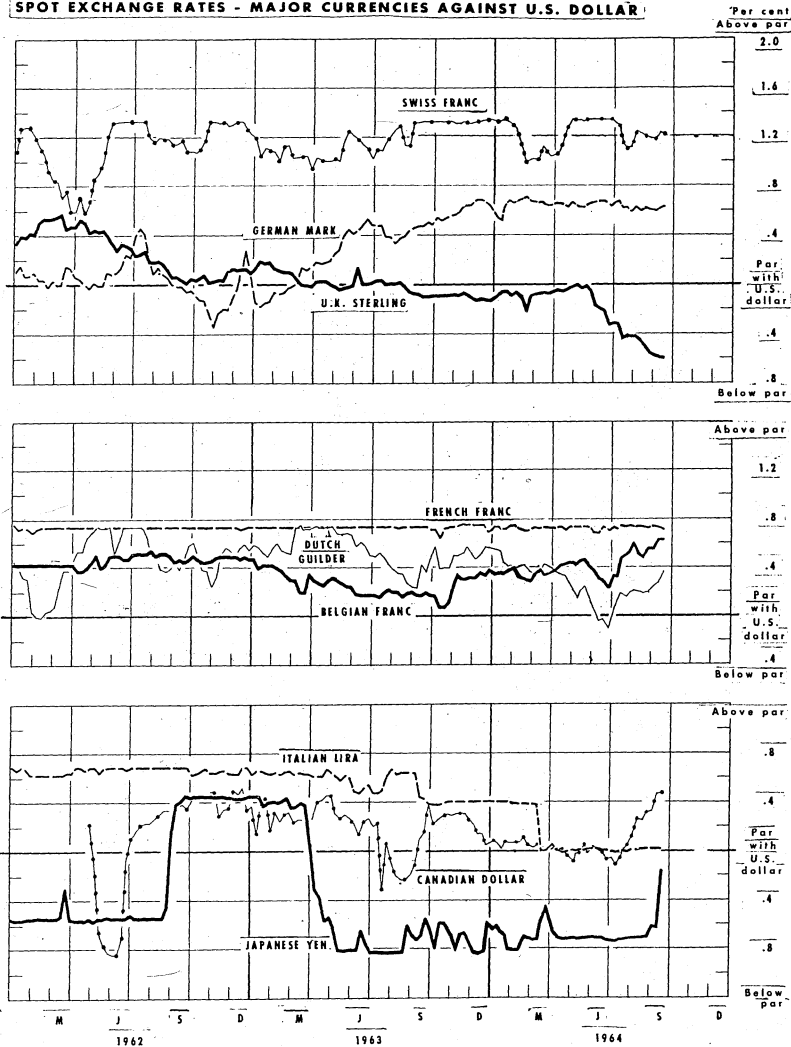
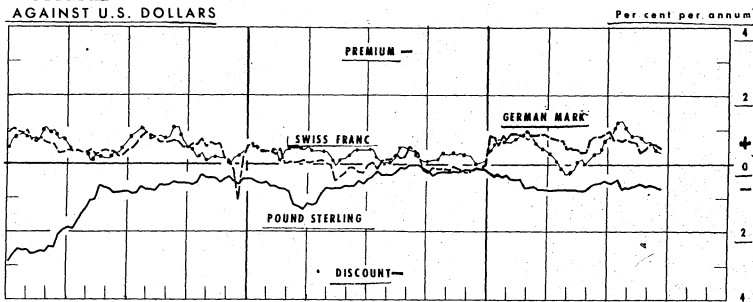


Chart 9

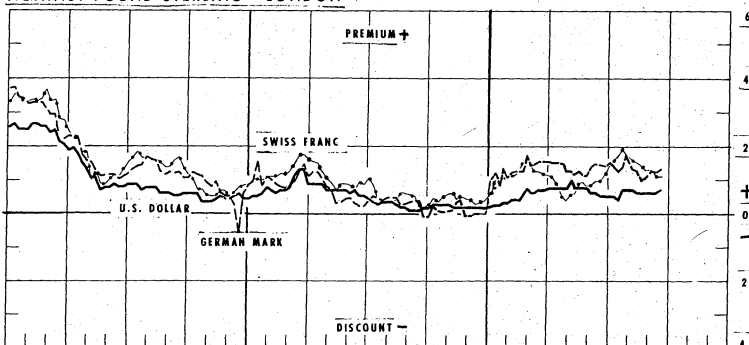
3-MONTH FORWARD EXCHANGE RATE

Friday figures

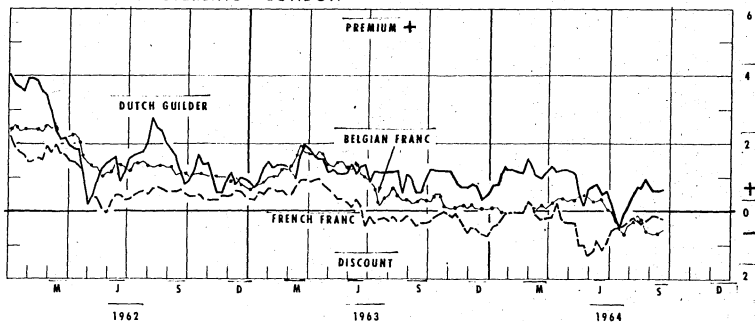
AGAINST U.S. DOLLARS



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON



Latest Figures Plotted In H.13 Chart Series 1964

<u>Chart 1</u>	<u>Per cent per annum</u>	<u>Chart 5</u>	<u>Per cent per annum</u>
<u>Upper panel</u>		(Friday, Sept. 18 , except as noted)	
(Wednesday, Sept. 16)		Treasury bills:	
Euro-\$ deposit	<u>4.19</u>	U.S.	<u>3.52</u>
U.S. certif. of deposit	<u>3.87</u>	U.K.	<u>4.50</u>
<u>Lower panels</u>		Germany	<u>2.63</u>
(Friday, Sept. 18)		Canada	<u>3.75</u>
Treasury bills: U.S.	<u>3.52</u>	Swiss 3-month deposits (Date: Aug. 7)	<u>3.07</u>
U.K.	<u>3.80</u>	Euro-\$ deposit (London)	<u>4.19</u>
Canada	<u>3.57</u>	Japan: composite rate (Date: May 29)	<u>7.935</u>
Finance Co. paper: U.S.	<u>3.75</u>	<u>Chart 6</u>	
Canada	<u>4.26</u>	Bonds:	
Hire-purchase paper, U.K.	<u>4.12</u>	U.S. govt. (Wed., September 16)	<u>4.22</u>
<u>Chart 2</u>		U.K. war loan (Thurs., September 10)	<u>6.22</u>
(Friday, Sept. 18)		German Fed. Railway (Fri., September 18)	<u>6.35</u>
Treasury bills: Canada	<u>3.75</u>	Swiss Confederation (Fri., September 11)	<u>4.08</u>
U.S.	<u>3.52</u>	Canadian govt. (Wed., September 9)	<u>5.23</u>
Spread favor Canada	<u>+0.23</u>		
Forward Canadian dollar	<u>-0.20</u>		
Net incentive (Canada +)	<u>+0.03</u>		
<u>Chart 3</u>			
(Friday, Sept. 18)			
Treasury bills: U.K.	<u>4.50</u>		
U.S.	<u>3.52</u>		
Spread favor U.K.	<u>+0.98</u>		
Forward pound	<u>-0.72</u>		
Net incentive (U.K. +)	<u>+0.26</u>		

IV. Special Annex

WEEKLY CHARTS ON FINANCIAL MARKETS ABROAD: NOTES AND SOURCES OF DATA

CHART 1. International Money Market Yields for U.S. Dollar Investors

Euro-dollar Deposit (3-month)

The rate of interest paid on three-month U.S. dollar-denominated time deposits by commercial banks in London. Wednesday figures.

Source: Market data obtained through the Foreign Department, Federal Reserve Bank of New York.

U.S. Certificate of Deposit (3-month)

Yield based on secondary market offering quotations for time certificates of deposit of prime New York City banks. Wednesday figures.

Source: Market data obtained through the Market Statistics Department, Federal Reserve Bank of New York.

Treasury Bills (fully hedged)

Friday figures.

Source: Morgan Guaranty Trust Company of New York.

U.K. Hire-purchase Deposit (fully hedged)

The yield on three-month time deposits with prime British finance companies. Friday figures.

Source: Morgan Guaranty Trust Company of New York.

Canadian Finance Company Paper (fully hedged)

The yield on three-month notes issued by Canadian finance companies. Friday figures.

Source: Morgan Guaranty Trust Company of New York.

U.S. Finance Company Paper

The yield on three-month notes of prime U.S. finance companies. Friday figures.

Source: Morgan Guaranty Trust Company of New York.

CHART 2. Interest Arbitrage, United States/Canada

Canadian Treasury Bill

January 2, 1959 through December 27, 1962 - Average Thursday tender rate for 90-day Treasury bills adjusted to a New York quotation basis.

Source: Weekly Financial Statistics, Bank of Canada.

January 4, 1963 to date - 11 a.m., Friday market offered rate in Canada for 90-day Treasury bills adjusted to a New York quotation basis.

Source: Based on market data obtained through the Foreign Department of the Federal Reserve Bank of New York.

(The Canadian Treasury bill, which is quoted in Canada on a 365-day true yield basis, is adjusted to a 360-day discount basis, which is the quotation basis of the U.S. Treasury bill in New York.)

U.S. Treasury Bill

January 2, 1959 through December 27, 1962 - 11 a.m., Thursday market offered rate in New York for 90-day Treasury bills.

January 4, 1963 to date - 11 a.m., Friday market offered rate in New York for 90-day Treasury bills.

Source: Based on market data obtained through the Securities Department of the Federal Reserve Bank of New York.

Premium/Discount on the Forward Canadian Dollar

January 2, 1959 through December 27, 1963 - Premium/discount on forward Canadian dollar computed per annum on the basis of mid-rates for both spot and forward quotations at NOON on Thursday in New York.

January 4, 1963 through December 27, 1963 - Premium/discount on forward Canadian dollar computed per annum on the basis of mid-rates for both spot and forward quotations at NOON on Friday in New York.

January 3, 1964 to date - Premium/discount on forward Canadian dollar computed per annum on the basis of mid-rates for both spot and forward quotations at 11 a.m. on Friday in New York.

Source: Based on market data obtained through the Foreign Department of the Federal Reserve Bank of New York.

CHART 3. Interest Arbitrage, New York/London

U.K. Treasury Bill

January 2, 1959 through June 24, 1960 - Average Friday tender rate for 90-day Treasury bills adjusted to a New York quotation basis.

Source: The Economist.

July 1, 1960 to date - Prior 11 a.m., Friday market offered rate in London for 90-day Treasury bills adjusted to a New York quotation basis.

Source: Based on market data obtained through the Foreign Department of the Federal Reserve Bank of New York.

(The U.K. Treasury bill, which is quoted in London on a 365-day discount basis, is adjusted to a 360-day discount basis, the quotation basis of the U.S. Treasury bill in New York, by multiplying the London quotations by the ratio 360/365.)

U.S. Treasury Bill

January 2, 1959 to date - 11 a.m., Friday market offered rate in New York for 90-day Treasury bills.

Source: Based on market data obtained through the Securities Department of the Federal Reserve Bank of New York.

Premium/Discount on the Forward Pound Sterling

January 2, 1959 through December 27, 1963 - Premium/discount on forward pound computed per annum on the basis of mid-rates for both spot and forward quotations at NOON on Friday in New York.

January 3, 1964 to date - Premium/discount on forward pound computed per annum on the basis of mid-rates for both spot and forward quotations at 11 a.m. on Friday in New York.

Source: Based on market data obtained through the Foreign Department of the Federal Reserve Bank of New York.

CHART 5. Short-term Interest Rates

U.K.: Euro-dollar, London

Friday figures.
See notes to Chart 1.

U.K. Treasury Bill

See notes to Chart 3.

U.S. Treasury Bill

See notes to Chart 3.

German Treasury Bill

The rate of interest on Treasury bills sold by the Bundesbank to investors.
Source: Deutsche Bundesbank, Monatsberichte.

Japan: Average rate on bank loans and discounts

A weighted average of agreed interest rates and discounts charged by city banks, local banks, trust banks, and long-term credit banks. Weekly average.

Source: Bank of Japan, Economic Statistics Monthly.

Canadian Treasury Bill

Switzerland: Three-month deposit rate

Interest rate paid on three-month deposits by large banks in Zurich.
Source: Swiss National Bank, Monthly Report.

CHART 6. Long-term Bond Yields

U.K.: 3-1/2 per cent War Loan

Thursday figures.
Source: Bank of England.

Germany: 5-1/2 per cent German Railroad, 1958-83

Friday figures.
Source: International Bank for Reconstruction and Development.

U.S.: 3-1/2 per cent 1990

Wednesday figures.
Source: Federal Reserve Bank of New York.

Canada: 3-3/4 per cent 1975-78

Wednesday figures.
Source: Bank of Canada

Switzerland: 3 per cent 1967-74

Friday figures.
Source: International Bank for Reconstruction and Development.