DIVISION OF INTERNATIONAL FINANCE

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

H. 13
No. 277

December 7, 1966.

CAPITAL MARKET DEVELOPMENTS ABROAD

I. India: Money and Capital Markets in the Third Quarter 1966

1. Introduction. During the third quarter, the Indian economy reacted to the devaluation and accompanying measures of June 6. The trade balance improved sharply, price increases were halted, and productive activity slowed down.

The trade balance improved dramatically since the 36.5 per cent devaluation of the rupee. In the three-month period June-August, imports decreased 35 per cent while exports decreased 27 per cent, compared with the three previous months, March to May. As a result, the trade deficit was sharply reduced by 45 per cent over this period. However, from the end of June to September, India's reserves decreased by $118 million to $657 million--significantly more than in the corresponding months in 1965--primarily because of the smaller share of aid-financed imports.

During the quarter, domestic inflationary pressures eased significantly. The index of wholesale prices rose by less than 1 per cent in the third quarter compared to 7.3 per cent in April-June. Industrial production also slowed down dramatically. In the first half of the year the index of industrial production averaged only 1.5 per cent higher than January-June 1965, compared with a year-to-year gain of 8.7 per cent in the same period last year. In July, the index abruptly decreased by 2.9 per cent and was more than 1 per cent below July 1965. Recent newspaper reports indicate that the slowdown is only partly due to the decrease in aid-financed industrial imports since aid was suspended in September 1965 because of the war with Pakistan, and to delays in issuing import licenses under new aid commitments. In addition, a sharp decline in final demand appears to have led to increased inventories, to further production cutbacks and to increased unutilized capacity. Real national income was reportedly down 4 per cent and per capita income 7 per cent in the year ending March 1966.

Expectations of a normal agricultural crop this year changed suddenly as a result of a late drought. The extent of crop damage is still unknown, but four northern states claim that a food famine is imminent. On October 20, the Prime Minister said that the Government could provide relief for the distressed areas without causing another national food crisis. A few days later the Government announced that the U. S. was considering an Indian request for 2 million tons of additional foodgrains in the last two months this year and for 8 million tons next year. Since the expected shortfall in agricultural production this year follows a sharp decrease last year, the supply of agricultural commodities to the industrial sector this year may not be adequate to support large increases in industrial production.

The third quarter witnessed a sharp decrease in new capital issues of industrial firms and a rapid increase of participations by government-financed underwriters. At the same time, stock prices were depressed because of declining corporate profits. The value of new shares issued has been declining and in September was 11 per cent below the paid-up value in 1961.

As the economy continued to slow down, the monetary authorities moved to ease credit conditions in the harvest season beginning on November 1. In announcing the credit relaxation in late October, the Reserve Bank Governor estimated that bank credit would increase by Rs. 6 billion by the end of April next year, double the expansion during the previous harvest season. The Governor indicated that the Reserve Bank would accommodate the banks' needs for seasonal financing--which he estimated at Rs. 1.7 billion--by lending at bank rate of 6 per cent, eliminating the penalty borrowing rates previously in effect. At the same time the Governor advised banks to channel about 80 per cent of their advances to industrial borrowers. He also cautioned the government to avoid deficit financing in order to contain inflationary pressures in the coming months.

2. Wholesale prices and production. In the third quarter price increases were drastically reduced. From July through September 1966 the price increase was only 0.4 per cent in contrast to the 7.3 per cent increase in the April-June period. (See Table 1). The abatement of upward price pressues which this reflects stems in part from favorable crop reports and in part from increases in grain imports. As a result, the index of wholesale prices fell back 2.8 per cent from the second week of August to the end of September, compared with a decrease of only 1.6 per cent in the same period last year.

However, recent newspaper reports indicate that drought and floods in at least four northern states have caused extensive crop damage and that a famine is imminent. On October 20, the Prime Minister found it necessary to assure the country in a nationwide broadcast that the current food shortage would be solved. To do this India may require food imports of 10 million tons this crop year.

The slowdown in the rate of increase in prices followed a slowdown in the rate of increase in industrial production. In the first 6 months the index of industrial production was only 1.5 per cent higher than a year earlier compared with an increase of 8.7 per cent in the corresponding period last year. The slowdown in the growth of industrial production is reportedly due not only to shortages of imported raw materials, components and spare parts but also to a decrease in demand. As a result, inventories and unutilized capacity have increased. For example, the government-owned Hindustan Steel Ltd., which accounts for over 50 per cent of India's steel production, has announced that it expects to export steel inventories at a loss because domestic demand is inadequate. The government has agreed that the loss would be absorbed through subsidies and by increasing domestic steel prices.

The index of wholesale prices was 13.5 per cent higher at the end of September than a year earlier. (See Table 1). This was mainly due to a 15 per cent increase in food prices, a 20.6 per cent increase in industrial raw materials prices and a 7.8 per cent increase in the prices of manufactures.

Table 1. India: Wholesale Price Trends 1964-66
(1952-53=100)

	Index Numbers a/	Percentage Change Annual	Percentage Change Between Periods
1964			
I	139.0	9.3	--
II	147.7	10.2	6.3
III	159.7	17.2	8.1
IV	159.4	17.5	-0.2
1965			
I	151.0	8.6	-5.0
II	158.3	7.2	4.8
III	165.0	3.3	4.2
IV	169.0	6.0	2.4
1966			
I	173.9	15.2	2.9
II	186.6	17.9	7.3
III	187.3	13.5	0.4

a/ End of period.

3. Money supply. The seasonal contraction of the money supply from the end of April to October was 3.0 per cent or Rs. 1.35 billion. This compares favorably with a contraction of 1.0 per cent or Rs. 0.44 billion for the same period last year. As a result, the monthly annual rate of growth decreased sharply from 10.4 per cent in April to 8.3 per cent in October. (See Table 2).

Table 2. India: Money Supply with the Public
(last Friday of the period--
in billions of rupees)

Quarterly Annual Percentage Rates of Change

	1960-61	1961-62	1962-63	1963-64	1964-65[a]	1965-66[a]
I	5.5	6.2	8.7	13.4	10.0	11.0
II	3.9	7.6	10.4	13.5	9.3	10.3
III	3.4	9.4	12.0	10.7	10.6	8.8
IV	4.8	9.9	13.7	10.1	10.2	

Month	1965[a]	1966[a]	Monthly Annual Percentage Rate of Change
January	39.79	43.63	9.7
February	40.24	44.21	9.9
March	40.80	45.30	11.0
April	41.97	46.34	10.4
May	41.93	46.14	10.0
June	41.75	46.05	10.3
July	41.12	45.63	11.0
August	41.04	45.33	10.5
September	40.93	44.55	8.8
October	41.53	44.99	8.3

a/ Provisional.

4. Banking developments. The decrease in agricultural production and the sharp slowdown in industrial activity combined with restrictive credit and import policies, increased the seasonal reflow of funds into the banking system. In the season between harvest, May to October, deposits increased 52 per cent more than last year but credit contracted 16 per cent less. The banks used the increased liquidity to more than double their holdings of government securities and to reduce borrowings from the Reserve Bank. (See Table 3).

The seasonal reflow of funds exceeded the target set by the Governor on June 29. The realized increase in deposits amounted to Rs. 2,605 million, compared with the target of Rs. 2,000 million, and the realized decrease in bank credit amounted to Rs. 845 million, compared with the target of Rs. 1,000 million. In addition, banks decreased borrowings from the Reserve Bank by Rs. 280 million and increased cash and balances with the Reserve Bank by Rs. 90 million.

On October 28, the Reserve Bank Governor announced an easing of credit policies for the harvest season beginning November 1 and ending in April next year. Credit expansion is expected to be Rs. 6,000 million, almost double that of last year. The Reserve Bank estimates that the banks will be able to provide

Rs. 3,100 million by selling Treasury bills to the Reserve Bank and Rs. 1,200 million from deposits, net of liquidity requirements. The gap of Rs. 1,700 will be filled by borrowing from the Reserve Bank. The Governor thought that the credit expansion would be necessary to stimulate the economy. In particular, the expected recovery of agricultural production, which has since been revised, the anticipated increase in imports and the revival of industrial production were cited as factors necessitating an increasing credit expansion.

The Governor stressed that 80 per cent of the credit expansion of banks with deposits of Rs. 500 million or more should be channelled to industry, broadly defined to include plantations, mining, transport and power generation and distribution. At the same time, he urged banks to use the refinancing facilities of the Agricultural Refinance Corporation by purchasing debentures of land mortgage banks.

The Reserve Bank also announced a liberalization of bank borrowings. The bank eliminated the link between the sliding scale of penalty interest rates on borrowings and the net liquidity ratio. Under the previous system a bank's borrowing rate increased 1 percentage point over the 6 per cent bank rate for each decrease of one percentage point in the net liquidity ratio. Under the new system, banks may borrow at the 6 per cent bank rate so long as their net liquidity ratio does not fall below 30 per cent. In addition, even if a bank's net liquidity ratio as of October 28 were less than 30 per cent, a bank could borrow up to 10 per cent of their deposit liabilities as of October 28 at the bank rate. A penalty rate of 10 per cent will be charged for borrowings beyond these limits. The aggregate net liquidity ratio on October 28 was 40 per cent. The Governor advised banks that this liberalization of bank borrowings is to permit banks to increase advances to State governments and their agencies to procure foodgrains and to provide discounts for export and import bills

To help banks mobilize deposit resources, the Reserve Bank decontrolled the interest rates on time deposits of 3 to 6 months and 6 to 12 months which were 5 and 5.5 per cent, respectively, but confirmed the 6 per cent rate on deposits of one year and more and the 4 per cent rate on savings deposits. At the same time, the Governor announced that non-bank companies would be prohibited from accepting deposits from the public in excess of 25 per cent of paid-up capital and free reserves.

Table 3. India: Scheduled Banks--Changes in Deposits, Borrowings from the Reserve Bank and Principal Assets
(in millions of rupees)

	Deposits	Per Cent Change	Credit	Per Cent Change	Holdings of Govt. Securities	Per Cent Change	Borrowings from Reserve Bk.	Cash & Balances with Reserve Bk.
1965								
I	554	2.2	2,221	12.3	- 453	- 5.9	1,171	16
II	1,273	4.9	362	1.8	71	1.0	- 869	89
III	831	3.1	- 712	- 3.4	1,154	15.9	- 573	18
IV	745	2.7	1,023	5.1	- 141	1.7	101	196

Table 3 (cont.)

	Deposits	Per Cent Change	Credit	Per Cent Change	Holdings of Govt. Securities	Per Cent Change	Borrowings from Reserve Bk.	Cash & Balances with Reserve Bk.
1966								
I	731	2.6	1,868	8.9	- 166	2.1	592	-208
II	1,828	6.2	- 110	- .5	963	11.9	- 701	284
III	1,907	6.1	289	1.3	2,031	22.4	1,535	- 64
April	930	3.2	379	1.7	161	2.0	- 434	174
May	250	0.8	- 138	- 0.6	279	3.4	132	- 24
June	649	2.1	- 351	- 1.5	523	6.1	- 399	134
July	973	3.1	- 234	- 1.0	1,034	11.4	- 17	- 78
August[1]	924[2]	2.9	1,763	7.8	960	9.5	1,441	19
September	10	0.0	-1,240	- 5.1	37	0.3	111	122
October[2]	159	0.5	5	0.0	482	4.3	16	41
Comparison of Slack Season 1965 and 1966								
End of April to fourth week of September								
1965	1,718	6.5	-1,006	- 5.0	1,381	19.2	-1,208	203
1966 [2]	2,605	8.6	- 845	- 3.6	3,021	36.5	- 280	90
[3]	624		442		294		1,280	54
	3,229	10.7	- 403	- 1.7	3,315	40.1	1,000	144

1/ Since scheduled State Cooperative banks accounts were included from August 12, 1966, the monthly and quarterly changes from August 1966 are not comparable with previous periods.

2/ Provisional.

3/ Scheduled State Cooperative banks.

5. Money market. The average day-to-day inter-bank rate in Bombay dipped seasonally from the 4 per cent level at the end of April to a low of 3.6 per cent at the end of July and then recovered to the 4 per cent level by the end of September. Throughout, this rate remained well below the bank rate of 6 per cent and sharply below last year's levels. (See Table 4). Although the third quarter average rate this year, at 3.84 per cent, is below last year's third quarter average rate of 5.51 per cent, it is still much higher than the 2 per cent level of the third quarter of the two previous years, 1963 and 1964.

The total amount of Treasury bills outstanding increased Rs. 3.86 billion (25 per cent) to Rs. 19.58 billion in the year ending September 1966. (See Table 5). Gross sales to the Reserve Bank increased 53 per cent, to State governments and approved bodies 83 per cent and to the public 54 per cent. Net Reserve Bank claims on government increased Rs. 1.64 billion (5.6 per cent) to Rs. 30.88 billion at the end of September compared with a year earlier. This increase amounts to 45 per cent of the expansion in money supply of Rs. 3.62 billion in the same period.

Table 4. India: Inter-Bank Call Money Rates in Bombay a/

Quarterly Averages	1963	1964	1965	1966
I	5.64	5.67	5.92	4.69
II	4.46	5.01	7.88	4.48
III	2.01	2.22	5.51	3.84 b/
IV	2.93	3.04	5.67	

Selected Months - 1966

January	3.99	April	5.30	July	3.72
February	4.04	May	4.14	August	3.86 b/
March	6.04	June	3.99	September	3.95 b/

a/ Average of weekly averages weighted by deposits.
b/ Provisional.

Table 5. India: Treasury Bills and Reserve Bank Claims on Government
(in billions of rupees)

	Average Rate of Discount for Auction Sales in % Per Annum a/	Gross Sales a/ To Public	To State Govts. & Approved Bodies	To Reserve Bk.	Total Outstanding at End of Period	Total Reserve Bank Claims on Govt. (Net) b/c/ at end of Period
1965						
I	2.91	.369	d/	14.11	14.44	28.55
II	3.50	.584	d/	15.31	15.90	30.41
III	3.50	1.660	2.486	10.81	15.72	29.24
IV	3.50	1.168	3.439	12.18	15.19	31.10
1966						
I	3.50	.758	1.404	11.92	15.25	32.30
II	3.50	1.702	1.684	15.83	19.22	34.02
III	3.50	2.559	4.554	16.58	19.58	30.88
January	3.50	.378	.356	6.81	16.01	31.83
February	3.50	.234	.620	3.97	15.31	32.12
March	3.50	.147	.428	1.15	15.25	32.30
April	3.50	.552	.544	9.57	17.21	34.23
May	3.50	.396	.664	4.82	18.26	34.40
June	3.50	.755	.476	1.45	19.22	34.02

Table 5 (cont.)

	Average Rate of Discount for Auction Sales in % Per Annum a/	Gross Sales a/ To Public	To State Govt. & Approved Bodies	To Reserve Bk.	Total Outstanding at End of Period	Total Reserve Bank Claims on Govt. (Net) b/c/ at End of Period
1966						
July	3.50	1.166	1.278	10.116	21.12	32.41
August	3.50	.597	1.790	4.068	20.40	31.64
September	3.50	.796	1.485	2.400	19.58	30.88
October	3.50	.841	1.038	6.416	19.43	32.68

a/ Includes intermediate Treasury bills. From July 12, 1965, auction sales were suspended and Treasury bills were offered at fixed discounts.
b/ Claims on government net of deposits. Includes central and state government claims.
c/ Provisional or partial.
d/ Separate figure not available. Amount included in sales to the Reserve Bank.

6. Government bonds. The yield on a representative short-term security increased slightly from 4.20 per cent to 4.23 per cent from the second to the third quarter after dipping to a low of 4.18 per cent in July. (See Table 6). The medium-term yield decreased from 5.13 per cent at the end of June to a low of 4.75 per cent in the third week of August and then increased to 4.84 per cent at the end of September. The yield on the long-term security remained steady at 5.58 per cent during the third quarter.

Compared with a year earlier, in the third quarter, the short-term yield was 0.14 percentage points higher, and the long-term yield was 0.06 percentage points higher. However, the medium-term rate was 0.41 percentage points lower.

On July 19, subscriptions to two new central government issues were closed after subscriptions reached Rs. 2,752.3 million. Since three maturing issues amounted to Rs. 1,939.2 million (three-fourths of which was converted) net borrowings amounted to only Rs. 813.1 million, somewhat less than the Rs. 860 million which the budget authorized the government to borrow.

The two new issues are a 25-year, 5.5 per cent issue priced to yield 5.56 per cent, for which subscriptions totalled Rs. 1,080.3 million and a 5-year, 4.5 per cent issue priced to yield 4.53 per cent, for which subscriptions totalled Rs. 1,672 million. These yields are higher than the prevailing yields of 5.48 per cent and 4.09 per cent on comparable issues in early July. At the same time, the large seasonal reflow of funds into banks and the lower money rates on inter-bank lending (4 per cent) and on Treasury bills (3.5 per cent) made investments in government securities attractive to the banks.

Subscription to 14 state government issues were open from September 12 to 18. These issues were all 12-year maturities with a coupon rate of 5.5 per cent but some were sold at varying prices below par that would increase the yields up to 5.61 per cent. Subscriptions totalled Rs. 982.2 million, but only Rs. 973.6 million was accepted.

In addition to the Central and State government issues, the Industrial Finance Corporation, a government-owned institution, on September 26 issued Rs. 60 million in 12-year, 5.5 per cent bonds priced to yield 5.61 per cent.

Table 6. India: Yields on Selected Government Securities
(end of period--in per cent per annum)

	Short a/	Medium b/	Long c/
1962	3.89	3.94	4.76
1963	3.89	4.15	4.57
1964	3.81	4.19	4.84
1965	4.10	5.29	5.53
1966			
I	4.14	5.30	5.52
II	4.20	5.13	5.57
III	4.23	4.84	5.58
April	4.16	5.29	5.52
May	4.18	5.28	5.50
June	4.20	5.13	5.57
July	4.18	4.89	5.58
August	4.20	4.80	5.58
September	4.23	4.84	5.58

a/ 3-3/4 per cent N.P.B., 1968.
b/ 3-3/4 per cent 1974.
c/ 3 per cent 1986 or later.

7. Stock market. The index of variable dividend industrial securities decreased 3.9 per cent from the end of June to the end of September, when it was only 1 per cent higher than a year earlier. (See Table 7).

While the sharp decline in the third quarter was partly seasonal, it was also influenced by the slowdown in economic activity. The value of new shares issued from 1961 to September 1966 depreciated 10.5 per cent below their paid-up value. Of a total of 235 issues, 45 were quoted above par, 57 at par and 133 below par. In the third quarter, the amount of new capital issues decreased sharply, by 82 per cent, to Rs. 28 million from Rs. 157 million in the second quarter.

The stagnation of the capital market forced underwriters to take up an increasing proportion of the new shares. Newspaper reports indicate that of the total of Rs. 185 million in new shares, in the second and third quarters, only Rs. 50 to 60 million (27 to 30 per cent) was transferred from individual savings to corporate investment. The remainder was acquired by government financial institutions.

All forms of assistance from government financial institutions to private industrial investment in 1965-66 amounted to Rs. 1,820 million, up 54 per cent from a year earlier. However, for the Third Plan as a whole (1961-62 to 1965-66) government assistance to private investment amounted to Rs. 5,480 million or about 13 per cent of the total estimated private sector investment of Rs. 42 billion. This is compared with Rs. 1,210 million or about 5 per cent in the Second Plan (1955-56 to 1960-61) of a total of Rs. 24 billion.

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

Quarterly Averages	1962	1963	1964	1965	1966
I	190.0	167.4	170.4	162.0	144.4
II	192.6	162.9	163.7	156.3	156.0
III	185.0	162.5	166.0	151.8	154.3
IV	173.6	172.7	163.7	143.8	

Monthly Averages - 1966

January	143.1	April	154.3	July	157.3
February	143.2	May	156.7	August	154.8
March	147.0	June	157.0	September	151.0

8. Gold market. The official rupee price of gold in Bombay increased only 9.2 per cent in the week after devaluation on June 6 compared with the seasonal increase of 5.3 per cent last year for the same week. The larger increase was probably due to uncertainties associated with the devaluation. However, the rupee price subsequently decreased more than seasonally by 6.1 per cent from the week after devaluation to the last week in September compared with a 4.2 per cent decrease in the same period last year.

In the last week of September, the rupee gold price was 7.2 per cent higher than a year earlier. However, due to the 36.5 per cent devaluation of the rupee in June, the rupee gold price in U. S. dollars in the last week of September was 32 per cent lower at $57.55 per fine ounce than a year earlier at $84.58.

The price of gold converted at the official rate of exchange indicates that the official exchange rate had considerably overvalued the rupee in terms of gold prior to devaluation. (See Table 8). That this is probably still the case even after devaluation is suggested by the level of the gold price and by the wide difference between the Bombay rupee gold prices converted to U. S. dollars per fine ounce at the official rate and at the Hong Kong cross rate. (See Table 8, column 5). It will be noted that the price of gold in Bombay is quite close to the Hong Kong price when converted into dollars at the Hong Kong rate. (See Table 8, column 6).

Table 8. India: Price of Gold Bullion in Bombay a/
(in U. S. dollars per fine ounce)

1966 Month (1)	Official b/ Rate (2)	Hong Kong c/ Rate (3)	Hong Kong d/ Gold Price (4)	Difference (2) - (3) (5)	Difference (3) - (4) (6)
January	$88.87	$42.66	$40.78	$46.21	1.88
February	92.93	42.67	40.54	50.26	2.13
March	92.19	42.17	40.40	50.02	1.77
April	97.92	41.48	40.38	56.33	1.10
May	94.58	41.70	40.48	52.88	1.22
June e/	60.96	38.49	40.48	22.47	-1.99
July	60.19	40.75	40.26 f/	19.44	.49
August	59.47	40.29	40.54 f/	19.18	- .25
September	57.84	40.77	40.33 f/	17.07	.44
October	57.85	41.92	40.36 f/	15.93	1.57

a/ Monthly averages of averages of Friday spot rupee quotations in Bombay in 14 carat gold per 10 grams converted to U. S. dollars per fine ounce.
b/ Official exchange rate of 4.7619 rupees per U. S. dollar up to the devaluation on June 6 and 7.5 rupees thereafter. (See Table 9).
c/ Hong Kong monthly average cross rates of rupees per U. S. dollar. (See Table 10).
d/ Hong Kong gold price converted from 94.5 per cent purity to fine ounces.
e/ First 5 days omitted.
f/ Estimated.

Table 9. India: Price of Gold Bullion in Bombay a/
(U. S. dollars per fine ounce
at the official rate of exchange)

Quarterly Averages	1962	1963	1964	1965	1966
I	79.38	66.98	72.24	78.31	91.32
II	80.60	72.10	75.99	84.46	86.77
III	82.06	69.98	78.60	86.63	59.17
IV	71.41	66.42	75.38	85.32	

Monthly Averages - 1966

January	88.87	April	97.92	July	60.19
February	92.93	May	94.58	August	59.47
March	92.19	June	60.96	September	57.84
				October	57.85

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 at the official rate of 4.7619 rupees per U. S. dollar up to May 1966 and 7.5 rupees thereafter.

On November 2 gold controls were liberalized. The main provisions were (1) to permit manufacture of gold ornaments of higher than 14 carat purity previously prohibited, (2) to allow holdings of gold ornaments up to 2,000 grams or about $2,250 at the international price without requiring registration, and (3) to prohibit holdings of primary gold in the form of bars, ingots, slabs or billets.

Newspaper reports indicate that the use of gold may be decreasing. Gold consumption for industrial uses decreased about 50 per cent since the introduction of gold controls in 1962. Bank advances against gold and gold ornaments decreased from Rs. 420 million to Rs. 200 million in the 1962-66 period. However, a government official estimates that gold smuggling still amounts to about Rs. 1,000 million per year or about $133 million at the new exchange rate.

9. Exchange rate. The devaluation weakened the free market selling rate of Indian rupee notes in Hong Kong from 10.80 rupees per U. S. dollar in May to 11.64 rupees in June. (See Table 10). The discount on the rupee from the official rate in May averaged 56 per cent. After the 36.5 per cent devaluation on June 6, the discount still averaged 36 per cent in June.

However, since June the discount decreased and was 28 per cent in October. The strengthening could be due to the sharp slowdown in the rate of increase of the price level.

Table 10. India: Hong Kong and Bangkok Free Market Selling Rates of Indian Rupee Banknotes per U. S. Dollar

Quarterly Average	Hong Kong a/ 1963	1964	1965	1966	Bangkok b/ 1963	1964	1965	1966
I	5.83	6.99	7.93	10.23	5.42	6.43	7.42	8.89
II	6.18	7.52	8.94	11.23	5.70	7.01	8.05	10.03
III	7.05	7.96	8.75	10.93 c/	6.57	7.44	8.38	10.15 c/
IV	6.94	7.93	8.76		6.19	7.06	7.91	

Monthly Average - 1966

	Hong Kong	Bangkok
January	9.92	8.63
February	10.37	9.04
March	10.41	9.00
April	11.24	9.86
May	10.80	9.81
June	11.64	10.32
July	11.08 c/	9.86
August	11.07 c/	10.80
September	10.64 c/	--
October	10.35 c/	10.30

a/ Average of month.
b/ End of month.
c/ Provisional.

10. International reserves and foreign trade. India's gold and foreign exchange reserves were $657 million at the end of September, $118 million lower than at the end of June but $158 million higher than a year earlier. The reserves of the Reserve Bank decreased $76 million to $508 million and those held by the Government decreased by $42 million. (See Table 11). Since required reserves to back the currency are $420 million, free reserves at the end of September were $237 million or about one month's imports.

The decline in reserves occurred in spite of a marked improvement in the trade balance as imports fell more than exports. The deficit balance decreased 45 per cent ($180 million) to $224 million for the three months of June to August from $404 million in the previous three months of March to May. (See Table 12). Exports decreased $115 million or 27 per cent while imports decreased $295 million or 35 per cent.

One of the factors that initially reduced exports was the near standstill of sales to communist bloc countries, which accounted for 19 per cent of India's exports in 1965. Since these countries have bilateral rupee payment agreements with India the devaluation required renegotiation with each country to obtain an increase in rupee export prices. All of the communist bloc countries agreed to the 57.5 per cent increase with the exception of Russia which permitted an increase of only 47.5 per cent.

In addition, exports in general were delayed due to the confusion created in the weeks following devaluation by the elimination of various forms of export subsidies and the imposition of certain export duties. Cost calculations became uncertain and the establishment of new market prices was delayed. Additional uncertainties were imposed by rapid and numerous changes in export duties and in the export commodities covered by the program. On August 16, the government reinstated cash subsidies, ranging from 10 to 20 per cent, for exports of engineering goods, sugar, steel scrap and woolen carpets to assist these exports to meet foreign price competition. Newspaper reports indicate that these new export subsidies are inadequate because of increases in domestic costs of production since devaluation. It is said that the August increase in exports represents only the clearing of export shipments that would have been made in June and July.

The sharp decrease in imports during the June-August period reflects the impact of the devaluation. To soften the impact of the increase in rupee import prices, the government reduced certain import duties, eased credit availabilities and simplified complex import licensing procedures by introducing an open general licensing system for a list of essential imports. The government expects aid-financed imports to increase in the coming months as a result of a consortium pledge of $900 million in non-project aid.

Table 11. 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)

Quarter	Reserve Bank	Change	Government	Change	Total	Change
1965						
I	461	14	63	12	524	26
II	443	-18	76	13	519	- 5
III	456	13	48	-38	504	-15
IV	460	4	136	88	596	92
1966						
I	474	14	151	15	625	29
II	584	110	191	40	775	150
III	508	-76	149	-42	657	-118
January	474	14	144	8	604	8
February	481	7	131	-13	612	8
March	474	- 7	151	20	625	13
April	636	162	173	22	809	184
May	605	-31	191	18	796	-13
June	584	-21	191	0	775	-21
July	471	-113	210	19	681	-94
August	471	0	189	-21	660	-21
September	508	37	149	-40	657	- 3
October	497	-11				

Table 12. India: Balance of Trade
(in millions of US dollars)

Year Month	Imports	Exports	Balance
1965			
June	306	141	-165
July	251	129	-122
August	242	141	-101
TOTAL	799	411	-388
1966			
March	356	162	-194
April	231	132	- 99
May	247	136	-111
TOTAL	834	430	-404
June	161	81	- 80
July	190	101	- 89
August	188	133	- 55
TOTAL	539	315	-224

Prepared by:
Henry F. Lee,
Asia, Africa and Latin America Section,
Division of International Finance.

Chart 1

NEW YORK, LONDON, MONTREAL:

YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

DOLLAR DEPOSIT RATES: NEW YORK-LONDON

Wednesday figures

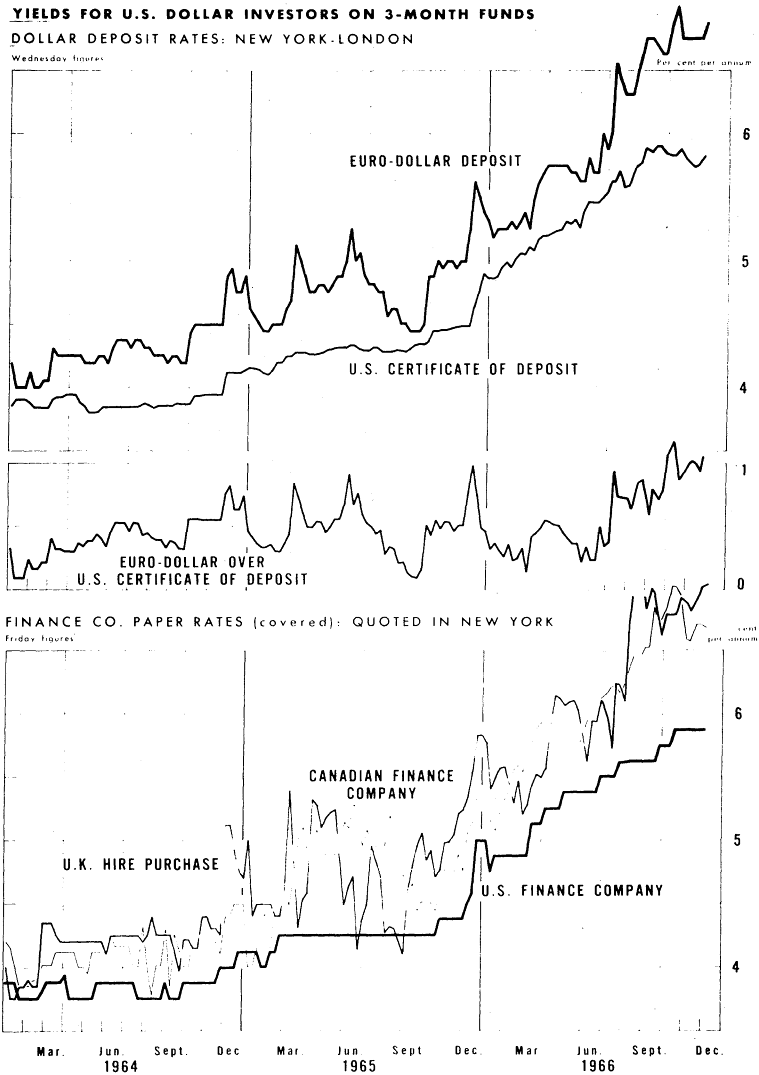


Chart 2

LONDON: YIELDS FOR U.S. DOLLAR INVESTORS ON 3-MONTH FUNDS

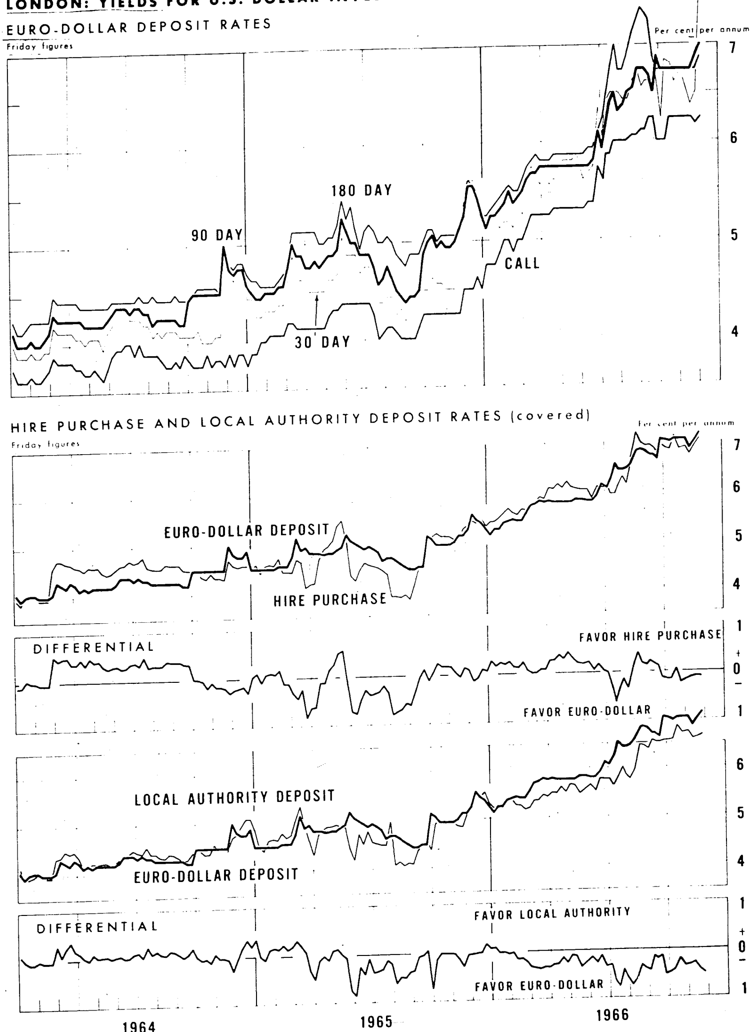


Chart 3

INTEREST ARBITRAGE: FRANKFURT/LONDON, ZURICH/LONDON

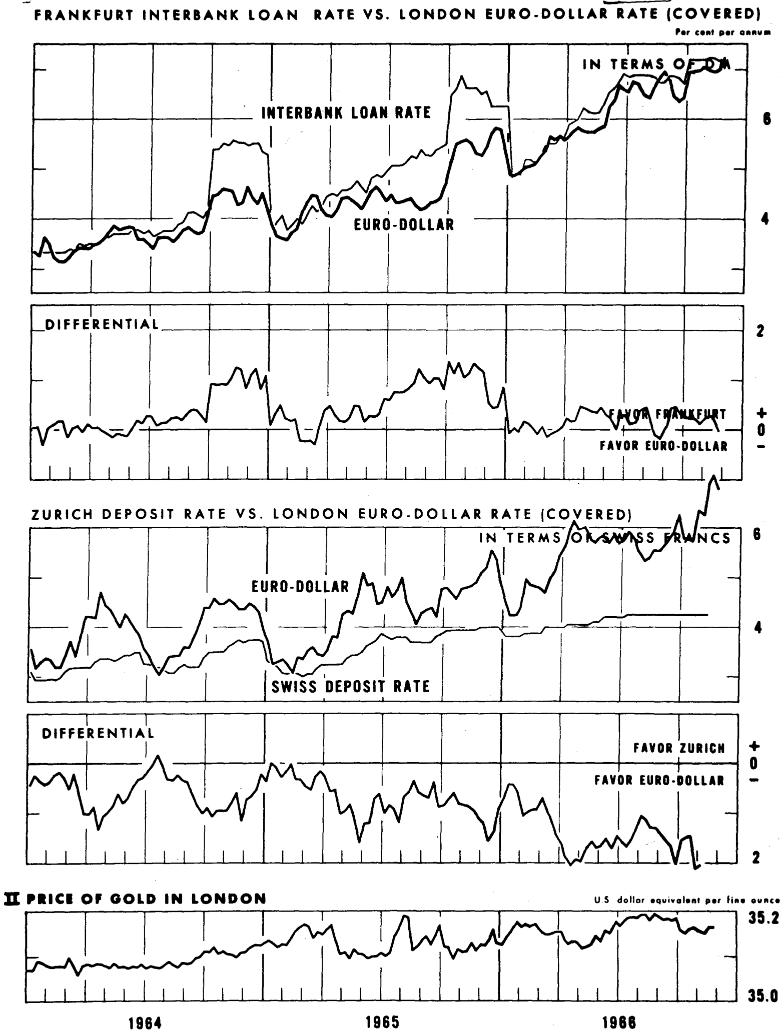


Chart 4

INTEREST ARBITRAGE, UNITED STATES/CANADA

Friday figures

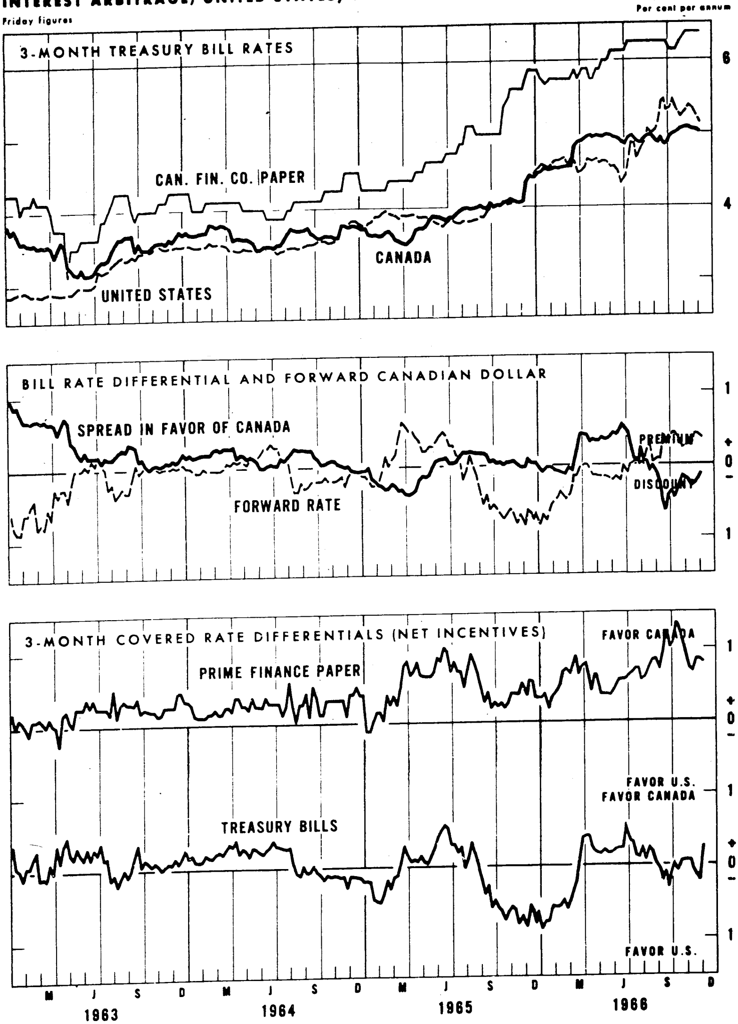
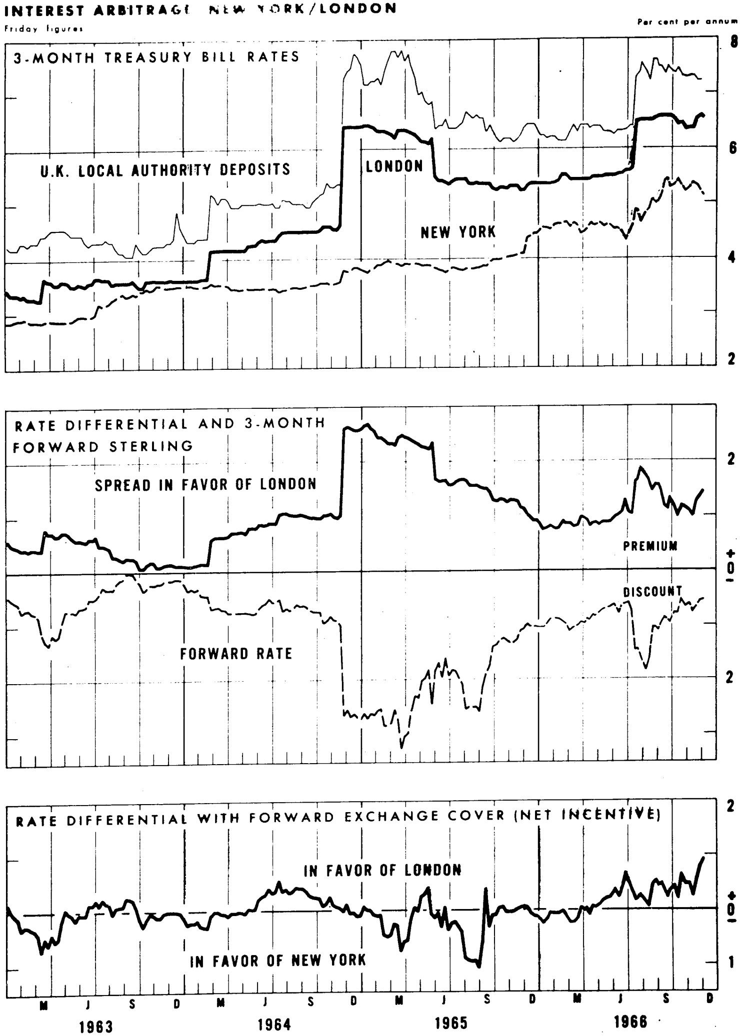


Chart 5

INTEREST ARBITRAGE NEW YORK/LONDON

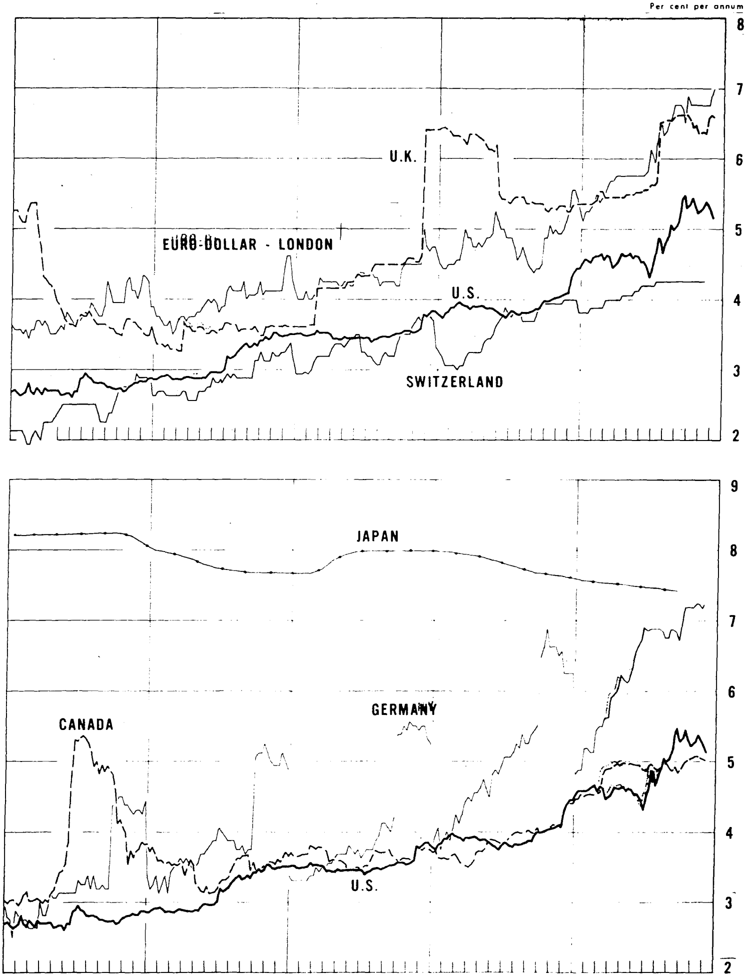
Friday figures



20

Chart 6

SHORT-TERM INTEREST RATES *

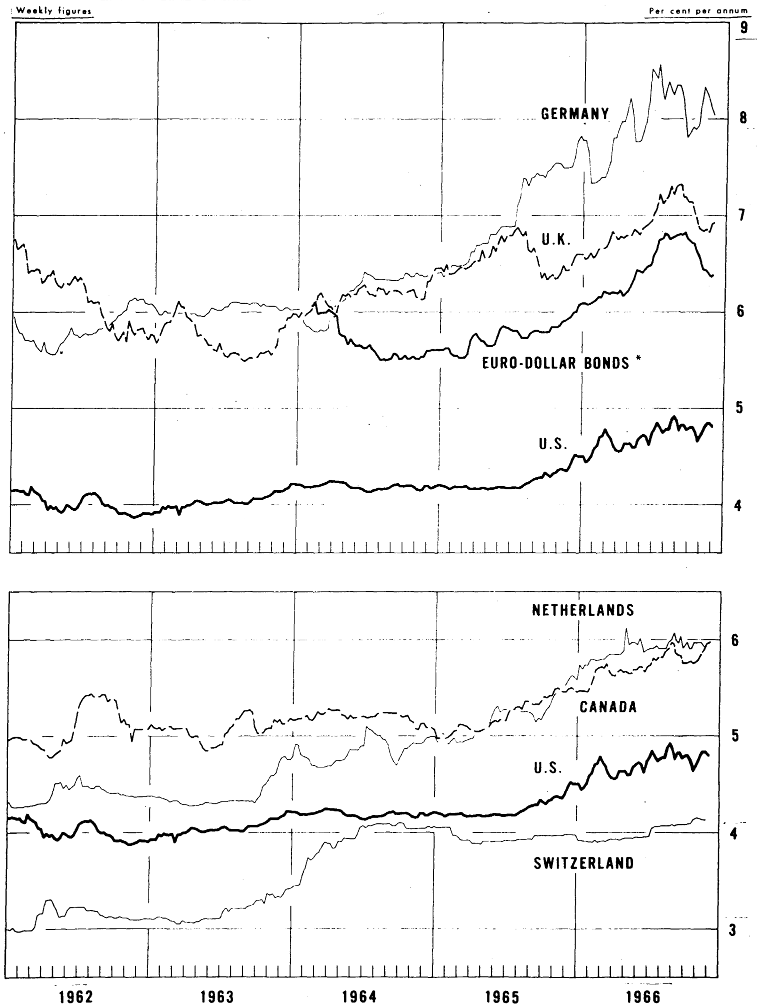


* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts) Switzerland (3 month deposit rate) and Germany (Interbank Loan Rate)

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

Chart 7

LONG-TERM BOND YIELDS



*/Average of yields for four foreign government dollar bonds quoted in London

Chart 8

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

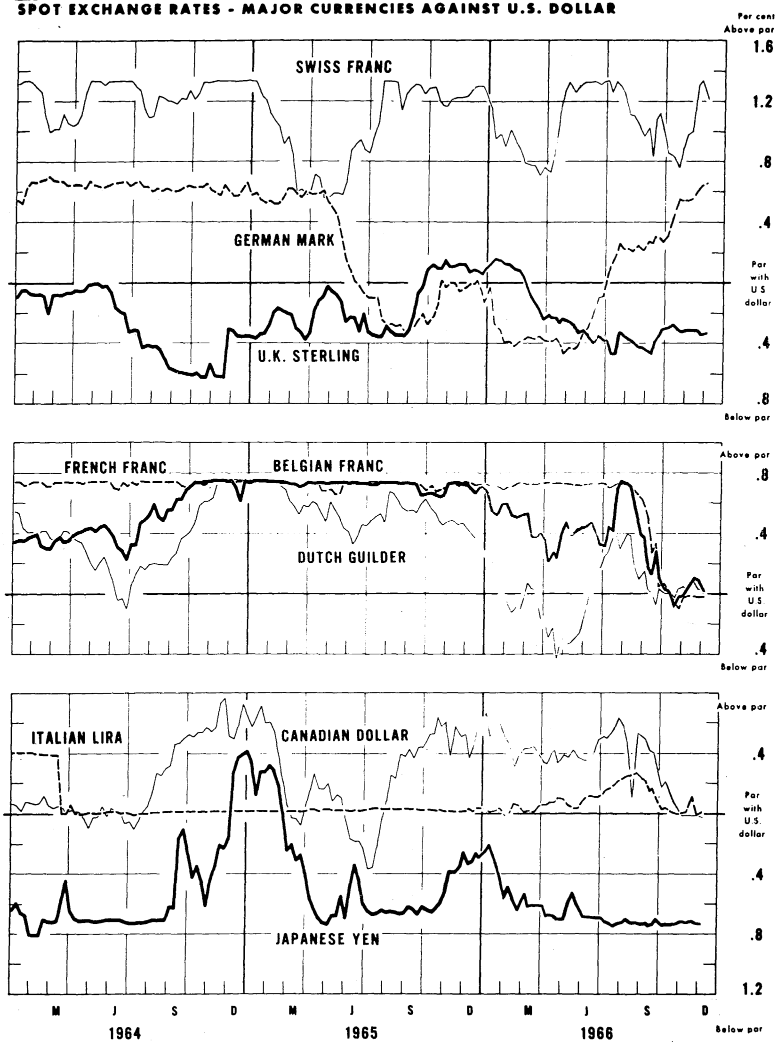


Chart 9

3-MONTH FORWARD EXCHANGE RATES

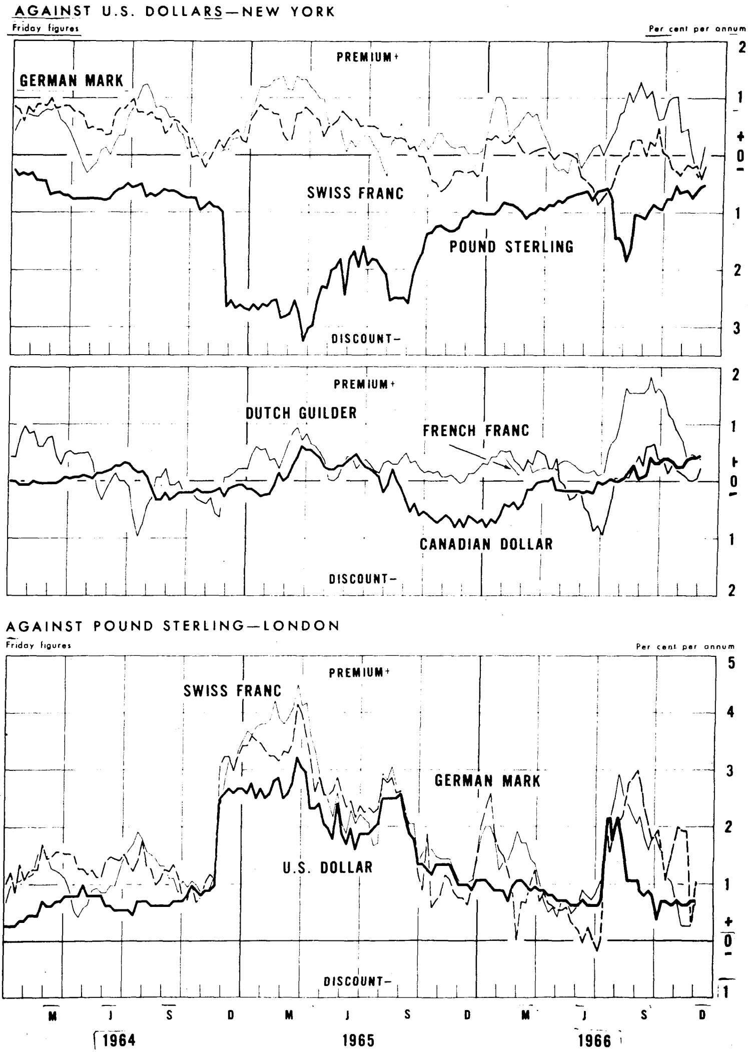
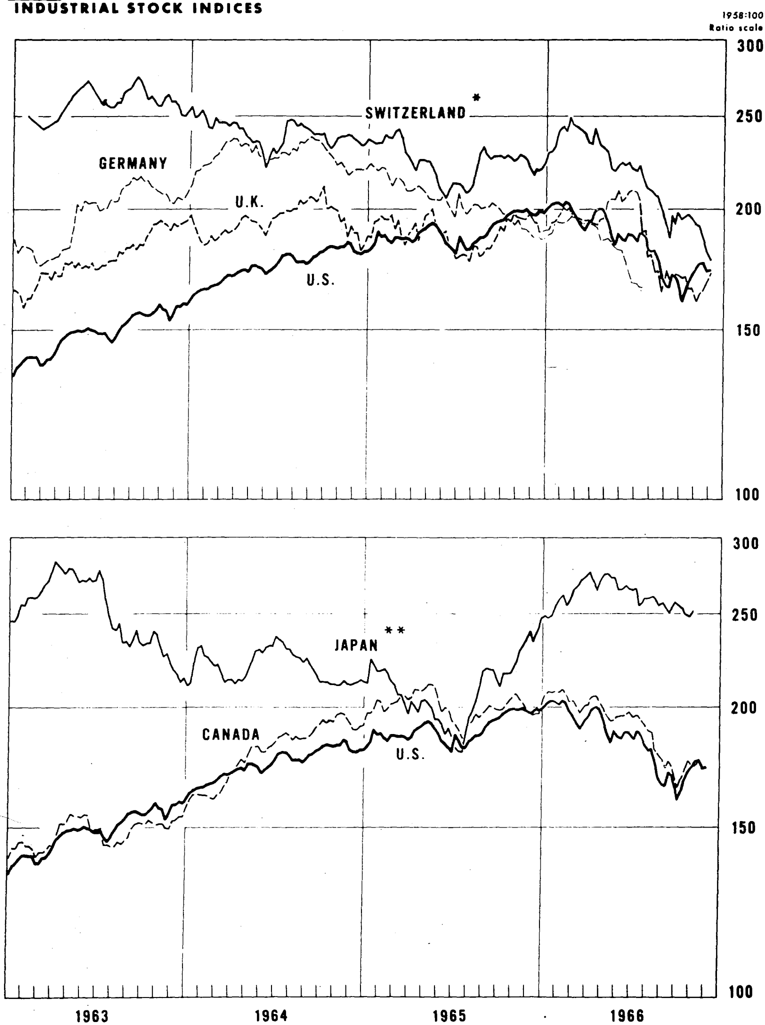


Chart 10

INDUSTRIAL STOCK INDICES



* Swiss Bank Corporation industrial stock index

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

H.13 December 7, 1966
No. 277

III. Latest Figures Plotted in H.13 Chart Series, 1966
(all figures per cent per annum)

Chart 1

Upper Panel (Wednesday, Nov. 30)

Euro-$ Deposit	6.88
U.S. certif. of deposit	5.82

Lower Panel (Friday, Dec. 2)

Finance co. paper: U.S.	5.88
Canada	6.68
Hire-purchase paper, U.K.	7.04

Chart 2

(Friday, Dec. 2)

Euro-$ deposits:

Call	6.25	90-day	7.00
7-day	6.50	180-day	6.88
30-day	7.50		

Hire-purchase paper (Nov. 25)	7.63
Local-authority deposit (Nov. 25)	7.25

Chart 3

Upper Panel (Period: Nov. 24-30)

Interbank loan (mid-point)	7.23
Euro-$ deposit (average)	7.25

*Lower Panel (Date: Nov. 15)

Zurich 3-mo. deposit	4.25
Price of gold (Friday, Nov. 25)	35.166

Chart 4

(Friday, Dec. 2)

Treasury bills: Canada	5.01
U.S.	5.13
Spread favor Canada	-0.12
Forward Canadian $	+0.37
Net incentive (Canada +)	+0.25
Canadian finance paper	6.38

Chart 5

(Friday, Dec. 2)

Treasury bills: U.K.	6.57
U.S.	5.13
Spread favor U.K.	+1.44
Forward pound	-0.52
Net incentive (U.K. +)	+0.92

Chart 6

(Friday, Dec. 2)

Treasury bills: U.S.	5.13
U.K.	6.57
Canada	5.01
Interbank loan rate (German) (Nov. 24-30)	7.23
Euro-$ deposit (London)	7.00
Zurich 3-mo. deposit (Date: Nov. 15)	4.25
Japan composit rate (Date: Sept. 30)	7.42

Chart 7

U.S. Gov't. (Wed., Nov. 30)	4.79
U.K. War Loan (Thurs., Dec. 1)	6.93
German Fed. (Fri., Nov. 25)	8.04
Swiss Confed. (Fri., Nov. 25)	4.13
Canadian Gov't. (Wed., Nov. 30)	5.97
Netherlands Gov't perpetual 3% (Friday, Nov. 25)	5.94
Euro-$ bonds (Fri., Dec. 2)	6.38

For descriptions and sources of data, see special supplement to H.13, Number 239, March 16, 1966.

* Oct. 15	4.25		Nov. 7	4.25
23	4.25		15	4.25
30	4.25			