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Monetary Developments in India in 1955

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February 14, 1956

MONETARY DEVELOPMENTS IN INDIA IN 1955

Yves Maroni

In 1955, the Indian economy underwent an accelerated expansion of money supply as increasing use was made of inflationary methods of financing the country's economic development program. However, agricultural prices, which began to decline in 1954, continued to fall in the first half of the year under pressure of further increases in domestic supplies of agricultural products from production and imports. Industrial prices showed little change during the year, but the rise in industrial production slowed down until a plateau appeared to have been reached during the summer. In the second half of the year, agricultural prices turned upward and there were some indications that the growth of industrial production was being resumed. While a part of the monetary expansion may be ascribed to an increasing tendency in hitherto undeveloped sectors of the economy to replace barter with monetary transactions, the evidence suggests that the avoidance of excessive price increases may soon again become the dominant objective of financial policy.

Factors affecting money supply

In 1955, the Indian Government stepped up its efforts to implement its program of economic development and the budgetary deficit rose. Attempts continued to be made to finance as large as possible a portion of this deficit in non-inflationary ways. However, direct sales of Treasury Bills to the Reserve Bank, which up to a year ago had been limited to renewals of outstanding holdings of the Bank, increased sharply. The Reserve Bank's holdings of government securities and other claims on the central and state governments rose more than one billion rupees during the year, compared with practically no change in 1954. Commercial bank holdings of government securities also rose about 375 million in 1955, over three times as much as in 1954. The expansionary impact of the public sector on the money supply amounted to over 1.6 billion rupees in 1955 compared to about 750 million in 1954, when it resulted mainly from a decline of nearly 600 million rupees in government deposits with the Reserve Bank and holdings of cash at public treasuries. The public sector accounted for about 79 per cent of the 1955 increase in money supply, compared with 56 per cent of the 1954 increase. (See Appendix, table 1).

Commercial bank credit to the private sector rose more than 15 per cent during 1955, compared with a 13 per cent increase in 1954. This was made possible by the increased availability of bank funds resulting from the Government's borrowings from the Reserve Bank. Through most of the first half, bank indebtedness to the Reserve Bank remained below the level prevailing twelve months earlier, but became unseasonably high in July and August when heavy new borrowings, partly in connection with the flotation of new issues by the central and ten state governments, prevented it from following its usual pattern of contraction. Although repayments brought it down, at the end of October, to a level only slightly above that of twelve months earlier, it rose well above this level again in November. Time liabilities of commercial banks rose more rapidly in 1955 than in 1954. However, the private sector exerted an expansionary influence on the money supply. The amount of this expansion was greater than in 1954, although it accounted for a somewhat smaller proportion of the increase in money supply than in 1954. (See Appendix, table 1).

India's gold and foreign exchange reserves fluctuated within a narrow range and, at the end of the year, the Reserve Bank's foreign assets were only slightly above the level of the end of 1954. (See Appendix, table 1). The balance of payments on current account, which was nearly in equilibrium in 1954, is likely to show a moderate surplus for 1955. (See Appendix, table 2). According to available data, the first quarter surplus was larger in 1955 than in 1954 and the approximate equilibrium of the second and third quarters of 1955 compares with deficits in the corresponding quarters of 1954. While unfavorable trade developments in the fourth quarter may hold the surplus in that period below the level recorded in the fourth quarter of 1954, a fourth quarter deficit does not appear likely. However, the current account surplus appears to have been offset by capital transactions and the expansionary impact of the foreign sector on the money supply remained small and approximately the same as in 1954.

The factors discussed above combined to produce an 11 per cent increase in money supply in 1955, compared with less than 8 per cent in 1954. (See Appendix, table 1). An unknown part of this monetary expansion, probably a significant one, appears to have been utilized in those sectors of the economy where the gradual replacement of barter by monetary transactions called for increasing availability of means of payment.

Prices

In spite of the accelerated pace of expansion of the money supply, wholesale prices in December were about at the same level as in the corresponding month of 1954. The downward movement of prices, which began in the first quarter of 1954, appeared to have ended in June 1955 and prices recovered during the second half of the year. The decline affected primarily food articles and industrial raw materials. These fell about 11 per cent and 10 per cent, respectively, in the first half of 1955, following declines of about 18 per cent and 10 per cent, respectively, in 1954. In contrast, wholesale prices of manufactured articles, which had risen about 3 per cent in 1954, fell only 1.3 per cent during the first half of 1955. (See chart A on next page and Appendix, table 3).

In the face of declining agricultural prices, the Indian Government, early in 1955, introduced a price support program covering wheat, coarse grains (jowar, bajra, and maize), and gram. Under this program, the state governments in producing areas undertook, on behalf of the Central Government, to buy these commodities at fixed prices at selected trading centers. In August, this program was extended to cover rice. The downward movement of prices appears to have been halted partly as a result of this program, partly as a result of increasing consumption at the lower price level, and partly as a result of the quickening pace of the monetary expansion.

Since June, the general index of wholesale prices has risen about 7.6 per cent. The recovery, like the earlier decline, affected primarily food articles and industrial raw materials which increased about 16.5 per cent and 12.3 per cent, respectively, in the last half of the year. In contrast, wholesale prices of manufactured articles rose less than one per cent in this period.

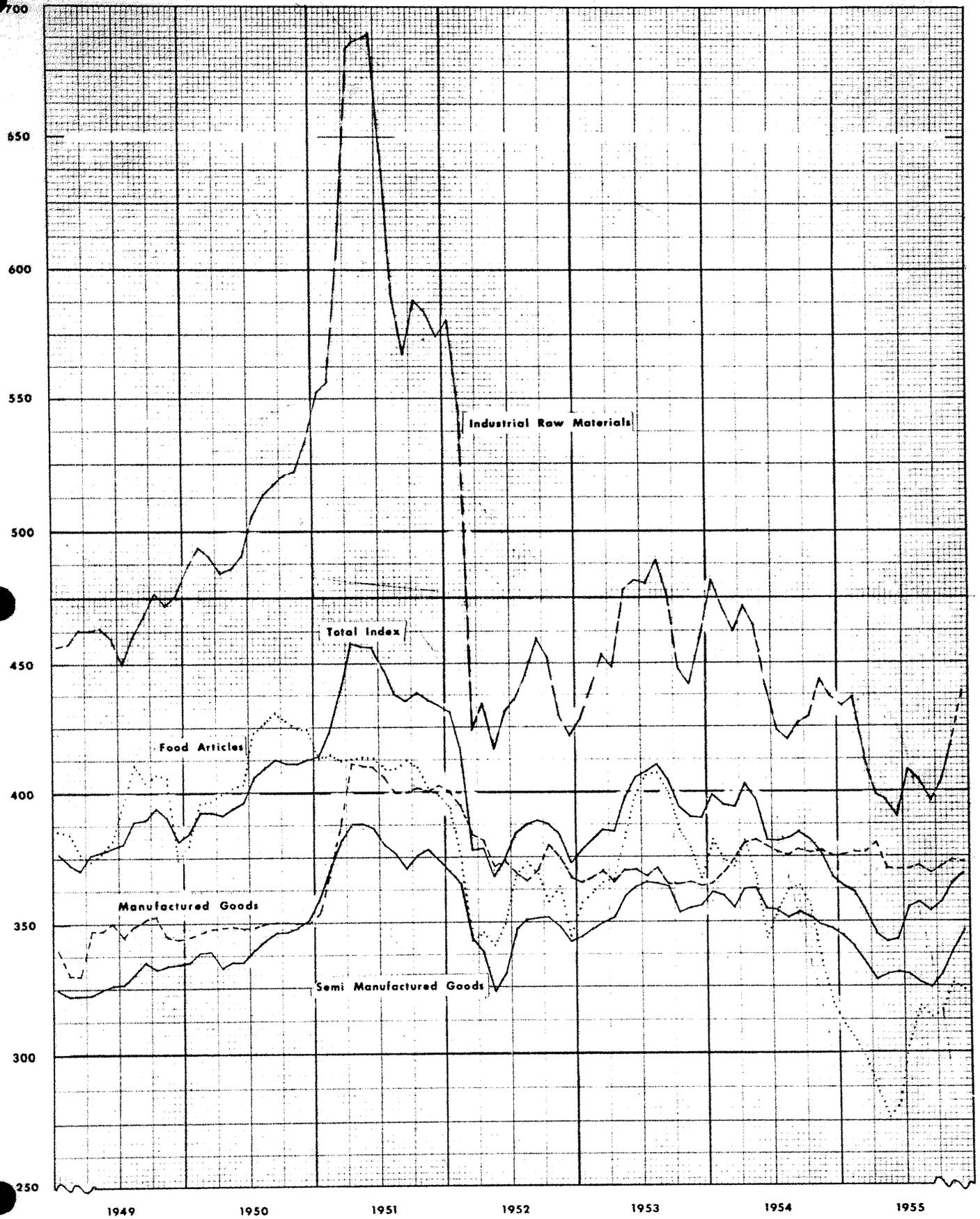
Production and trade

The decline of agricultural prices in 1954 and the first half of 1955 was brought about by continuing increases in the output of most agricultural products, supplemented by heavy rice imports from Burma in the last half of 1954 and the early months of 1955. At the same time, the mild fall in industrial prices in the first half of 1955 was associated with a slow down in the growth of industrial production and a higher level of exports.

INDIAN WHOLESALE PRICES

Year ending August 1939=100

Chart A



Agricultural production in India in the year ended June 30, 1955, maintained the high level reached the previous year. The index of agricultural production was approximately unchanged. However, this apparent stability was essentially the result of a 12 per cent decline in rice production, largely because of floods, which offset increases in the production of most other crops. Production of other foodgrains rose 2.3 per cent (including an 8.5 per cent rise in the case of wheat), and production of agricultural products other than foodgrains increased over 11 per cent. Compared to the previous year, these results involved, in general, a slowing down of the increase in foodgrain production and an acceleration of the growth of non-foodgrain crops as a whole. (See Appendix, table 4).

Industrial production, which had risen about 14 per cent in 1954, continued to increase but at a much slower rate during the first eight months of 1955. (See chart B on next page and Appendix, table 5). In fact, between May and August, ^{1/}it fluctuated within a narrow range somewhat below the April peak, suggesting that a plateau may have been reached in those months. This change in the trend occurred at a time when the textile industry ^{2/}undertook to reduce stocks of yarn and of cloth well below the levels maintained in the course of the previous two years. In the first eight months of 1955, stocks of cotton yarn and cotton cloth at the mills fell 53 and 56 per cent respectively. At the same time, there was some slow down in jute manufacturing production, ^{3/}following a 50 per cent rise in stocks of jute products in the first four months of 1955, and stocks dropped back to the January 1 level at the end of August. (See chart C, following chart B, and Appendix, table 6).

Exports followed the usual seasonal pattern during the first three quarters of the year at a level about 14 per cent higher than in 1954. However, in October and November, they failed to record the customary seasonal rise. The fourth quarter level may well have been somewhat lower than that of the fourth quarter of 1954. Imports, which had risen continuously throughout 1954, and were 28 per cent higher in the first quarter of 1955 than in the same quarter of 1954, declined throughout the first three quarters of 1955. Heavy purchases of rice from Burma, which accounted for the bulk of the 1954 rise, tapered off in the first half of 1955. However, rising imports of metals,

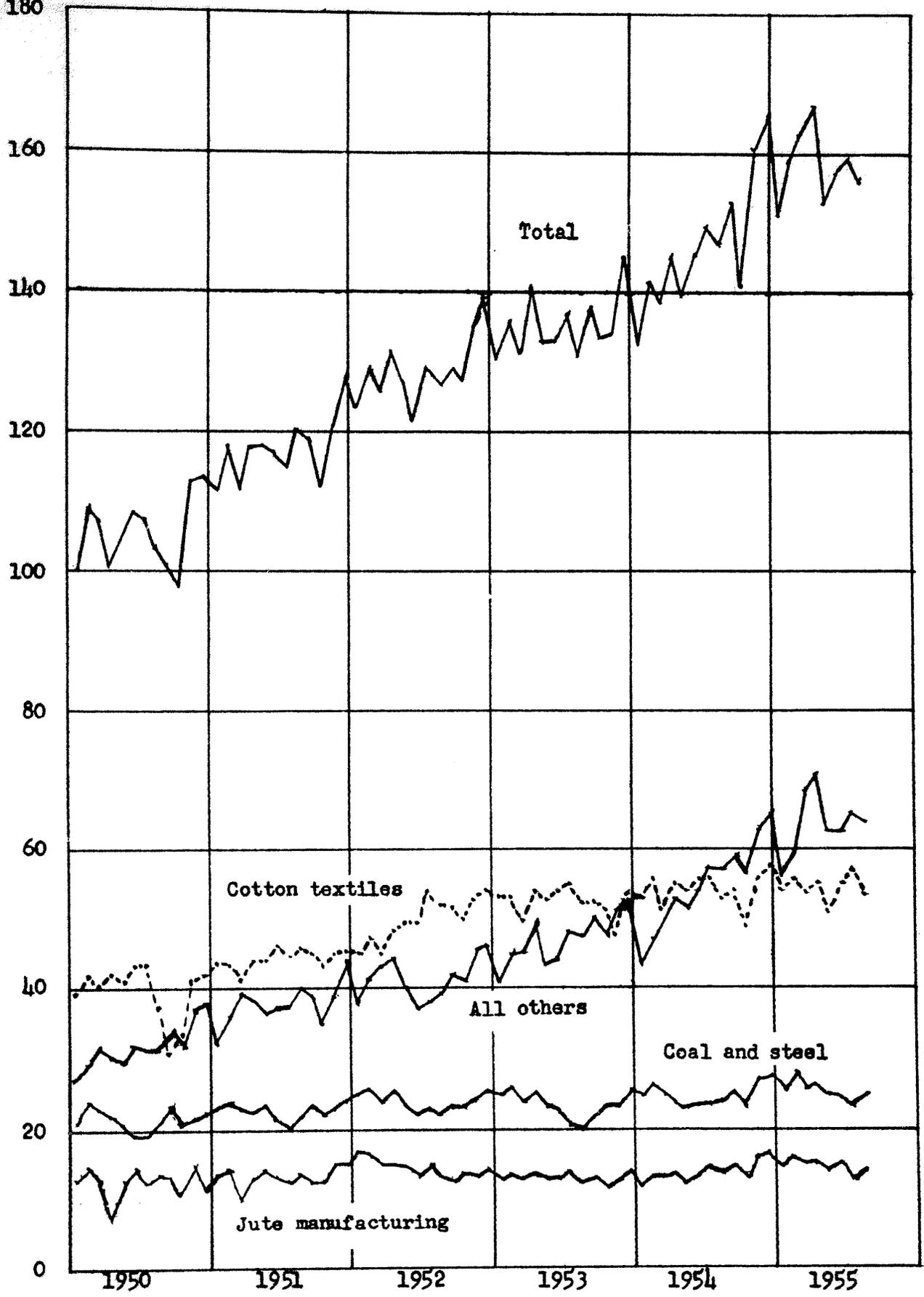
^{1/} Latest month for which complete data are available.

^{2/} Which still accounts for about 35 per cent of the industrial production index.

^{3/} Which still accounts for about 10 per cent of the industrial production index.

Indian Industrial Production
Points in total index (1946 average for total = 100)

Chart B

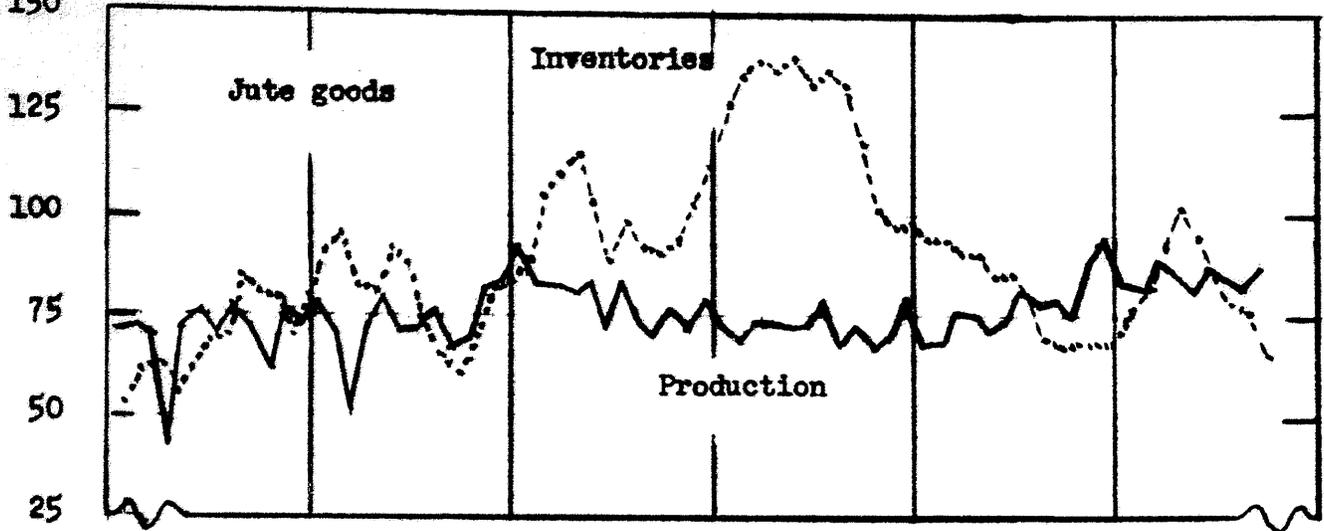


Indian Textile Production and Inventories

Chart C

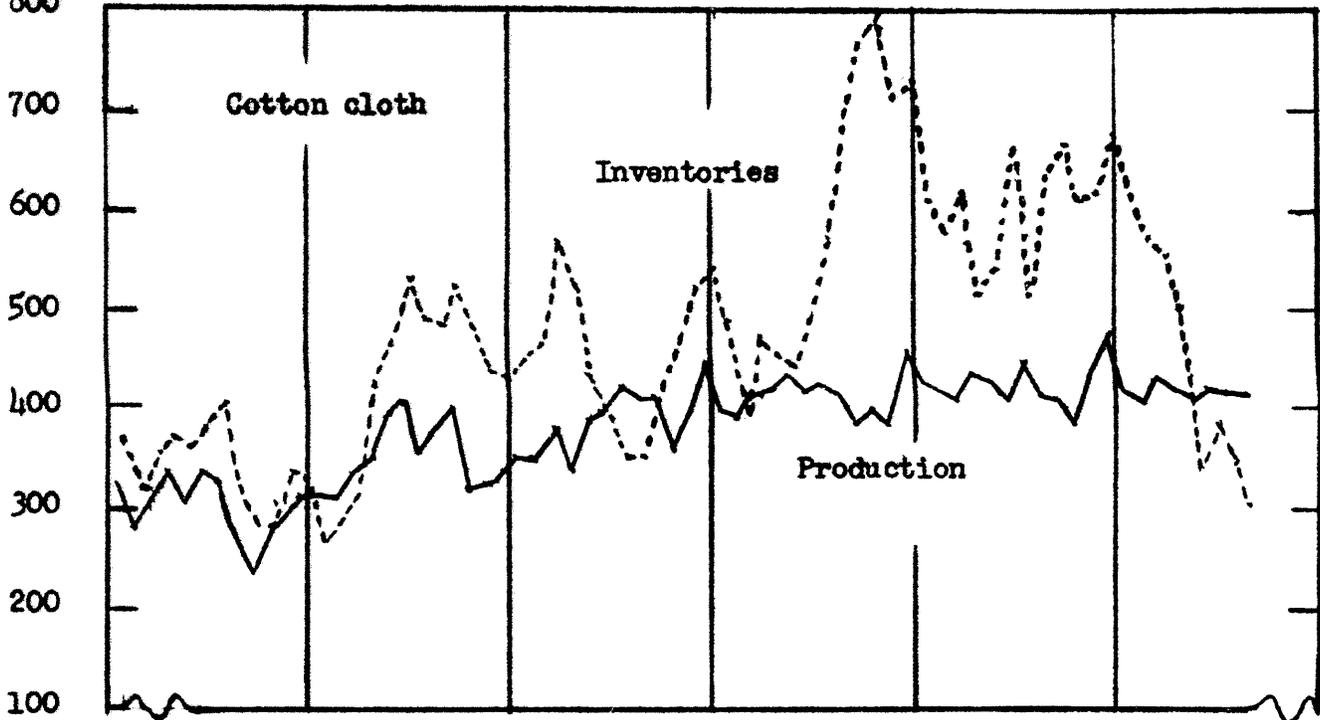
Thousand tons

150



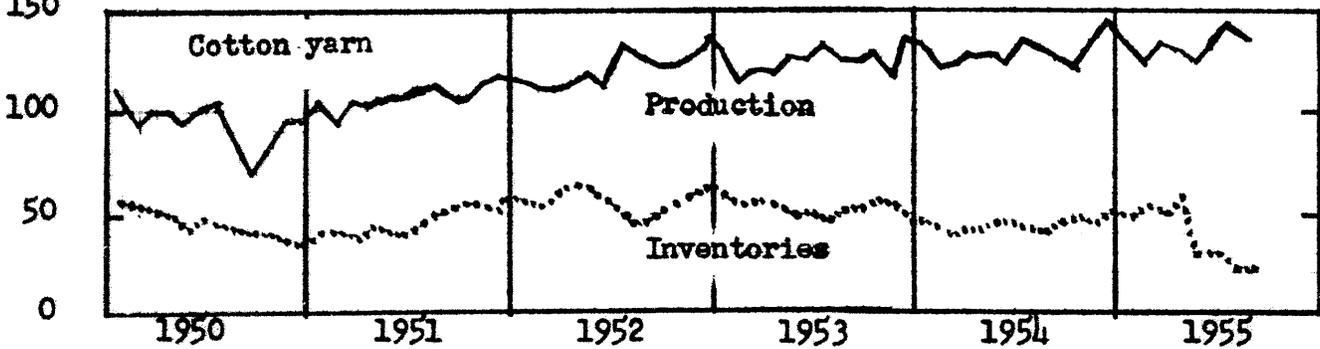
Million yards

800



Million lbs.

150



metal products, chemicals and certain other manufactured goods slowed down the overall decline. Total imports in November were up sharply from October and the fourth quarter level may well have been at least as high as the level of the fourth quarter of 1954. On the whole, the trade deficit for 1955 probably was slightly higher than in 1954. (See Appendix, table 2).

Prospects for the future

The implementation of the Indian program of economic development is continuing at an accelerated pace and the use of inflationary methods of financing may be expected to increase. This will be particularly likely to occur if the tentative proposals for the second Five Year Plan, made public last year, are in fact adopted for the second plan period which begins April 1, 1956. These proposals contemplate the use of "deficit financing" (mainly borrowing from the Reserve Bank) of 2 to 2.4 billion rupees per year, and leave another 1.6 to 2 billion rupees per year "uncovered", i.e., to be financed from sources the yield from which appears rather doubtful (increases in taxation beyond those already taken into account, compulsory borrowings and increased profits of government enterprises). This suggests that the expansion of money supply is likely to continue at an accelerated pace.

While a resumption of the rise in industrial production may be looked for, and further increases in agricultural production may be expected, this may not suffice to offset all of the monetary expansion. Some of the new money may continue to be absorbed in the sectors of the economy where the tendency of monetary transactions to replace barter is prevalent. However, the pressure on prices may be intensified. Wholesale prices today, while rising, are still somewhat below the 1949 level. Whether they remain reasonably close to this level may depend, broadly speaking, on wise monetary management, an art in which the Indian authorities have proved themselves masters, and specifically on India's ability to recognize the limit beyond which it may not be safe to use "deficit financing" and on its determination to adjust public spending for development in such a way as not to exceed this limit.

Indian Monetary
Developments

Appendix
TABLE 1
Money Supply in India and Principal Factors Affecting It, 1952-55
(In million rupees)

	Last Friday of year					Change during year		
	1952	1953	1954	1955	1953	1954	1955	
(1) Money supply	16,828	17,149	18,489	20,547 ^{6/}	+321	+1,340	+2,058 ^{6/}	
(2) Net position of public sector (Lines 3+4+5-6)	9,320	9,443	10,194	11,819 ^{6/}	+123	+ 751	+1,625 ^{6/}	
(3) Reserve Bank credit to Government ^{1/}	6,443	6,055	6,041	7,129	-388	- 14	+1,088	
(4) Scheduled bank holdings of government securities	3,232	3,360	3,479	3,851	+128	+ 119	+ 372	
(5) Other claims on Government ^{2/}	1,461	1,380	1,442	1,537 ^{1/}	- 81	+ 62	+ 95 ^{1/}	
(6) Government balances ^{3/}	1,816	1,352	768	698	+464	+ 584	+ 70	
(7) Net position of private sector (Lines 8-9+10-11-12)	689	502	730	1,067 ^{6/}	-187	+ 228	+ 337 ^{6/}	
(8) Scheduled bank credit to private sector	5,017 ^{5/}	4,905 ^{5/}	5,542	6,419	-112	+ 637	+ 877	
(9) Time liabilities of scheduled banks ^{3/}	3,139	3,300	3,653	4,131	-161	- 353	- 478 ^{1/}	
(10) Other banks - credit to private sector	626	609	665	735 ^{1/}	- 17	+ 56	+ 70 ^{1/}	
(11) Time liabilities of other banks ^{2/}	491	461	534	566 ^{1/}	+ 30	- 73	- 32 ^{1/}	
(12) Miscellaneous liabilities of banks (net) ^{3/}	1,324	1,251	1,290	1,390 ^{1/}	+ 73	- 39	- 100 ^{1/}	
(13) Net position of foreign sector (Lines 14+15)	7,455	7,626	7,708	7,752	+171	+ 82	+ 44	
(14) Gold reserves ^{4/}	400	400	400	400	---	---	---	
(15) Foreign exchange assets of the Reserve Bank	7,055	7,226	7,308	7,352	+171	+ 82	+ 44	
(16) Net errors and omissions (Lines 2+7+13-1) ^{3/}	636	422	143	91 ^{6/}	+214	+ 279	+ 52 ^{6/}	

SOURCE: Reserve Bank of India Bulletin

Footnotes on next page.

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Indian Monetary
Developments

TABLE 1

Footnotes

-
- 1/ Holdings of government securities and Treasury currency, and advances to state governments.
 - 2/ Government securities held by non-scheduled and state cooperative banks, and circulation of Treasury currency.
 - 3/ Increase: -; decrease: +.
 - 4/ Valued at the statutory price of Rs. 56,638 (\$11.89) per ounce. The official par value of the rupee is equivalent to a rate of Rs. 166,667 per ounce.
 - 5/ Adjusted to include an assumed amount of "foreign bills discounted."
 - 6/ Preliminary.
 - 7/ Estimated.

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Appendix

TABLE 2

Indian Foreign Trade and Balance of Payments on Current Account 1953-1955
(In million rupees)

	Exports		Imports			Trade Balance			Net Current Account			
	1953	1954	1955	1953	1954	1955	1953	1954	1955	1953	1954	1955
1st quarter	1,325	1,319	1,528	1,334	1,321	1,691	-9	-3	-163	+141	+189	+283
2nd quarter	1,196	1,134	1,314	1,651	1,486	1,536	-455	-352	-222	-104	-131	-4
3rd quarter	1,304	1,434	1,605	1,487	1,532	1,492	-183	-98	+113	+8	-140	-3
4th quarter	1,488	1,740	966 ^{1/}	1,241	1,684	1,145 ^{1/}	+247	+56	-179 ^{1/}	+524	+119	n.a.
Total	5,315	5,627	5,413 ^{2/}	5,701	6,023	5,864 ^{2/}	-386	-396	-451 ^{2/}	+569	+37	n.a.

Sources: Reserve Bank of India Bulletin, and International Financial Statistics

^{1/} October and November only.
^{2/} First eleven months only.

Appendix
TABLE 3

Wholesale Prices in India Since January 1954

(Year ended August 1939 = 100)

(Weights)	Food articles (31)	Industrial raw materials (18)	Semi- manufactured articles (17)	Manufactured articles (30)	Miscella- neous. (4)	General index (100)
<u>1954</u>						
January	381.5	481.1	361.5	364.3	709.8	398.5
February	373.3	471.3	360.1	368.3	693.9	395.0
March	371.4	462.5	355.8	373.9	686.9	394.0
April	381.6	472.1	362.4	380.9	707.4	402.6
May	366.2	464.9	362.6	381.1	689.5	396.1
June	343.2	441.0	355.6	378.7	647.3	381.6
July	353.9	423.2	354.2	376.6	636.0	381.3
August	362.4	420.8	351.9	375.8	608.9	382.3
September	363.6	426.0	353.3	377.7	607.8	384.4
October	355.9	428.8	351.8	376.5	605.7	381.6
November	334.2	443.8	348.8	377.0	605.4	376.1
December	318.0	436.3	347.4	375.1	579.7	367.8
<u>1955</u>						
January	310.3	432.9	344.5	375.5	568.8	363.9
February	304.3	436.1	339.7	376.9	558.6	361.4
March	297.0	412.7	333.5	376.3	553.3	353.8
April	283.6	398.6	327.8	377.1	541.2	345.4
May	276.1	396.4	329.6	374.6	544.6	342.0
June	282.3	390.4	330.6	370.0	568.0	342.9
July	309.8	408.4	329.6	370.7	561.9	355.6
August	317.5	404.4	326.1	371.2	563.1	357.2
September	313.0	396.1	324.6	368.8	556.0	353.2
October	315.7	403.7	329.8	371.2	559.3	357.2
November	325.8	418.7	338.1	373.3	543.6	364.7
December	323.7	438.3	346.6	373.0	544.2	368.4

Source: Reserve Bank of India Bulletin

Appendix
TABLE 4

Agricultural Production in India

(Year ended June 30, 1950 = 100)

Year ended June 30	Foodgrains			Non-Foodgrains				TOTAL
	Rice	Other foodgrains	Total	Oilseeds	Fibres	Other	Total	General index
(weights)	(35.3)	(31.6)	(66.9)	(9.9)	(4.5)	(18.7)	(33.1)	(100)
1950-51	87.9	93.4	90.5	98.5	108.6	109.2	105.9	95.6
1951-52	90.1	92.2	91.1	97.4	128.3	113.2	110.5	97.5
1952-53	96.8	105.9	101.1	91.9	128.4	104.2	103.8	102.0
1953-54	117.7	119.2	118.4	106.7	133.5	98.1	105.5	114.1
1954-55	103.4	122.0	112.2	115.1	146.4	111.5	117.3	113.9

Source: Ministry of Food and Agriculture,
"Agricultural Situation in India",
September 1955, pp. 422-23.

Appendix
TABLE 5
Industrial Production in India
since January 1954
(1946 = 100)

Indian Monetary
Developments

(Weights)	General index (100)	Cotton textiles (43.49)	Jute goods (16.53)	Coal (11.95)	Steel (7.16)	All others ^{1/} (20.87)
<u>1954</u>						
January	133.2	121.7	72.7	118.3	140.3	210.2
February	141.6	127.1	81.7	137.8	133.9	223.6
March	138.0	117.2	81.6	125.1	134.2	234.7
April	144.9	126.2	83.7	127.9	121.0	250.3
May	140.1	122.7	77.0	121.3	116.2	245.3
June	146.6	127.6	83.3	121.5	123.1	258.8
July	150.5	127.2	87.2	120.8	128.6	273.7
August	147.4	120.2	84.5	120.5	133.2	274.2
September	152.5	123.7	88.2	133.5	125.1	283.7
October	141.6	111.4	81.1	119.0	130.3	269.3
November	160.9	127.7	98.9	139.9	136.9	299.4
December	165.8	131.6	101.5	142.7	139.0	310.4
<u>1955</u>						
January	150.9	124.4	90.6	128.5	143.2	269.4
February	158.7	128.0	97.8	146.6	139.3	284.5
March	163.2	122.9	96.0	134.6	135.6	326.2
April	167.2	125.8	95.6	136.1	135.9	338.7
May	152.3	116.4	88.2	129.4	130.1	298.6
June	157.3	125.8	95.6	129.5	125.1	298.8
July	159.4	130.8	90.8	120.4	125.1	313.9
August	155.9	122.6	87.9	127.1	129.9	307.0
September	n.a.	n.a.	97.5	142.2	n.a.	n.a.

SOURCE: Reserve Bank of India Bulletin
^{1/} Derived

Appendix
TABLE 6

Indian Monetary
Developments

Indian Textile Production and Inventories since 1953

	Cotton Yarn (million lbs)		Cotton Cloth (million yards)		Jute Goods (thousand tons)	
	Production dur. mon.	Inventories at end of mon.	Production during mon.	Inventories at end of mon.	Production during mon.	Inventories at end of mon.
<u>1953</u>						
January	129.9	60	394.4	485	73.0	126
February	114.4	56	381.8	382	68.6	134
March	119.6	58	408.1	470	74.4	137
April	119.7	55	418.9	455	74.3	135
May	125.3	51	433.1	442	72.5	137
June	124.0	50	419.4	485	72.8	132
July	132.0	50	420.5	568	78.4	135
August	128.5	52	410.4	680	68.1	132
September	125.8	54	384.9	765	73.1	117
October	130.0	59	395.6	794	66.8	101
November	118.3	56	382.1	715	69.0	96
December	135.7	49	456.6	727	77.8	97
<u>1954</u>						
January	132.0	45	424.9	607	67.3	94
February	122.2	43	413.5	576	68.3	94
March	123.8	43	404.7	614	75.6	91
April	128.7	43	428.7	510	75.0	90
May	128.1	44	425.1	534	71.3	85
June	124.1	46	406.9	655	74.6	85
July	137.0	44	441.0	516	80.7	79
August	132.0	44	412.0	634	78.2	69
September	130.0	48	410.0	663	79.0	67
October	124.0	50	383.8	609	75.1	68
November	138.2	48	433.7	620	88.6	68
December	145.1	51	478.9	678	94.0	68
<u>1955</u>						
January	134.5	50	418.4	615	83.9	76
February	126.9	54	410.2	576	81.8	82
March	134.0	51	427.0	559	88.9	93
April	132.0	59	419.0	502	85.7	102
May	129.0	30	407.0	339	81.7	94
June	133.0	30	418.0	381	85.7	85
July	144.0	24	416.0	358	84.1	77 ^{2/}
August	137.0 ^{1/}	24	415.0 ^{1/}	301	81.0 ^{1/}	75 ^{2/}
September	n.a.	n.a.	n.a.	n.a.	87.0 ^{1/}	65 ^{2/}

SOURCES: Reserve Bank of India Bulletin and Monthly Abstract of Statistics.

^{1/} Preliminary

^{2/} Derived