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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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QUARTERLY ECONOMIC REVIEW

No. 7

March 1957

Department of Operations  
Asia and Middle East

EXCHANGE RATES IN TERMS OF U.S. DOLLARS

LEBANON	-	pound	=	\$0.31
IRAN	-	rial	=	\$0.013
PAKISTAN	-	rupee	=	\$0.21
INDIA	-	rupee	=	\$0.21
CEYLON	-	rupee	=	\$0.21
BURMA	-	kyat	=	\$0.21
THAILAND	-	baht	=	\$0.049
JAPAN	-	yen	=	\$0.0028

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## RECENT CHANGES IN MIDDLE EAST CRUDE OIL PRODUCTION

Production of crude oil in the principal Middle East producing countries decreased 27% in the fourth as compared with the third quarter of 1956. All of this cutback occurred in November and December when production was about 43% lower than in September-October. For 1956 as a whole Middle East crude production was only 3.4% higher than in 1955, compared to an increase of 13% which had been forecast prior to the Suez crisis. Prices of crude f.o.b. Persian Gulf ports as of the latter part of January 1957 were unchanged as compared with the pre-crisis period, apparently the higher costs of transporting Middle East oil around the Cape offsetting the increases in prices of Western Hemisphere crude (over 10% for East Texas and Venezuelan oil). The price of Middle East oil at Mediterranean ports increased about 9.4% during this period.

The main brunt of the reduction in Middle East output fell on Iraq as a result of the stoppage of flow through the Iraq Petroleum Company pipeline across Syria from the Northern Iraq fields. Kuwait, Saudi Arabia and Iran were also adversely affected by the tanker shortage resulting from the absorption of tankers in the longer haul around Africa. In the case of Iran the cutback was only about 15%, however, owing, in part, to expansion of throughput at the Abadan refinery.

Assuming that the Canal is opened in the near future the longer term loss of revenues to Kuwait, Saudi Arabia and Iran attributable to the Suez situation may not be significant since the prices of crude on the world markets are not apt to return to the pre-crisis levels and thus they will be compensated in part at least for the temporary reduction in export volume. In the case of Iraq, production increased somewhat in January 1957 because of larger production in the South Iraq fields. It is reported that the Syrian Government has now agreed to permit the Iraq Petroleum Company to begin the repair of its pipeline and to resume pumping operations. By the temporary expedient of laying pipe to by-pass the damaged pumping stations the Syrian pipeline could resume over 40% of normal throughput in a week or so. This would restore total Iraq exports to about 60% of the pre-crisis level. However, full repair of the pumping stations may require a considerable period of time.

Middle East production as a whole was 28% higher in January 1957, than in the low month of November, and had recovered to 64% of the pre-crisis high of October 1956. This compares with 58% of October production in December and 50% in November. In January, Iran, in contrast to other producers, exceeded October production by 5%.

Crude Oil Production in the Middle East, 1956

Millions of Metric Tons

	<u>First half 1956</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Second half 1956</u>	<u>Total 1956</u>	<u>% Pro- duction in Nov.- Dec. of Sep.-Oct.</u>	<u>% Pro- duction in fourth quarter of third quar- ter 1956</u>	<u>January 1957*</u>
Iran	12.23	2.46	2.25	2.33	2.60	2.09	2.11	13.84	26.07	85	97	2.73
Iraq	16.97	3.16	3.11	3.06	3.16	0.73	0.88	14.10	31.07	26	51	0.92
Kuwait <sup>1/</sup>	29.43	5.75	5.22	4.83	5.32	2.28	3.44	26.84	56.27	56	70	3.87
Bahrein	0.75	0.13	0.13	0.12	0.13	0.12	0.13	0.76	1.51	100	100	0.13
Saudi Arabia	25.45	4.28	4.17	4.20	4.37	2.88	2.86	22.76	48.21	67	80	2.74
<b>Total</b>	<b>84.83</b>	<b>15.78</b>	<b>15.88</b>	<b>14.54</b>	<b>16.18</b>	<b>8.10</b>	<b>9.42</b>	<b>78.30</b>	<b>163.13</b>	<b>57</b>	<b>73</b>	<b>10.39</b>
U.S.A.	176.24	29.70	30.14	28.60	29.18	28.94	29.00*	175.56	351.80	100	98	
Venezuela	62.90	11.15	11.18	10.94	11.50	11.51	11.50*	67.78	130.68	103	104	

<sup>1/</sup> Includes Kuwait Neutral Zone.

\* Preliminary.

## LEBANON

Business activity slowed down somewhat in Lebanon during the fourth quarter of 1956 owing to concern about the Middle East situation and a reduction in Lebanese transit trade, particularly with Syria. Bank credit was tighter and retail trade was reduced. The flow of goods through the Port of Beirut was reduced about 18% as between October and November. The number of new building permits issued in Beirut also declined sharply. As of the end of November official foreign exchange and gold reserves had declined about 5% as compared with July, reversing an upward trend that had prevailed for several years. There does not seem to have been much speculative pressure on prices which increased only slightly despite a considerable increase in currency in circulation.

No comprehensive data are as yet available on Lebanese foreign trade or government finances for 1956. Trade returns for the first nine months would indicate that both exports and imports were higher than in the corresponding period of 1955 and that the trade gap to be financed from profits on transit and entrepot trade, tourism, and other invisible receipts increased by about \$15 million or over 11%. The ordinary budget (apart from the budgets of autonomous agencies and development projects) for 1957 provides for an increase in revenues of about 10% over 1956.

LEBANON

	1951	1952	1953	1954	1955	1955				1956				
						I	II	III	IV	I	II	III	IV	
POPULATION (million)	1,304	1,338	1,417	1,447	1,483									
NET NATIONAL PRODUCT (L <sup>s</sup> million)	1,071	1,090	1,250	1,380	1,440									
NET CAPITAL INVESTMENT (L <sup>s</sup> million)	131	150	154	165	-									
PRICES (1953 = 100)														
Wholesale prices	122	111	100	92	93	92	91	93	96	99	98	98	98 1/	
Cost of living	107	107	100	95	96	95	95	97	99	102	103	101	102 1/	
MONEY SUPPLY (L <sup>s</sup> million)														
Currency (gross)	212	205	209	246	271	247	256	268	271	274	286	300	342 1/	
Demand deposits	253	301	324	362	444	397	417	437	444	458	477	473		
Total	465	506	534	608	715	644	673	705	715	733	763	773		
TIME DEPOSITS IN BANKS (L <sup>s</sup> million)	6	12	19	27	39	29	28	35	39	39	39	43		
BANK CREDIT OUTSTANDING (L <sup>s</sup> million)	318	356	357	402	492						529 2/			
PUBLIC BUDGET (L <sup>s</sup> million) 3/														
Receipts		161	163	177	197									
Expenditures		-127	-139	-131	-160									
Balance		7 34	7 24	7 46	7 37									
GOLD AND FOREIGN ASSETS B.S.L. AND GOVERNMENT (US \$ million)														
Gold	26.3	30.6	34.7	63.1	73.7	63.1	66.7	66.7	73.7	73.7	73.7	73.7	73.7 1/	
Foreign exchange (of which French francs)	13.2	11.6	20.5	13.0	12.8	15.8	14.4	18.8	12.8	12.4	13.6	12.2	9.5 1/	
Total	39.5	42.2	55.2	76.1	86.5	78.9	81.1	85.5	86.5	86.1	87.3	85.9	83.2 1/	

1/ November.

2/ Provisional estimate for May.

3/ Including extra-budgetary expenditures.

## IRAN

Based mainly on a level of oil production about 64% higher than in 1955 and the utilization of over \$70 million in foreign loans and grants, Iran was able to sustain a rapidly increasing rate of expenditure on economic development in 1956 while maintaining a reasonable degree of economic stability. This was accomplished principally through a policy of liberal import control under which foreign exchange received by the Government in the form of oil revenues and foreign grants and loans and which was excess to its own needs, was made available for commercial imports. The rials obtained by the sale of this foreign exchange for private imports was adequate to cover the local currency costs of the development program and other public expenditures not met from internal revenues. Private bank credit expansion was moderate and prices reasonably stable except for some increases late in the year mainly attributed to the Suez crisis.

Although complete data are not yet available, it appears probable that Iran's foreign exchange receipts increased about \$80 million, or 25%, as between 1955 and 1956. Exports, excluding oil, seem to have declined slightly owing to smaller realizations from raw cotton and rice, and U.S. aid received as foreign exchange was also probably somewhat reduced. Thus the increased income from the oil industry of about \$60 million, the utilization of a new IMF drawing of \$17.5 million and about \$10 million under the 1955 Eximbank loan, accounted for the rise in receipts. Foreign exchange and gold reserves increased about \$20 million for the year to \$230 million equivalent on December 20, 1956, approximately equal to 80% of annual imports. Imports appear to have increased about \$60 million, or by roughly 20%, as between 1955 and 1956. Probably most of this increase occurred in the public sector as a result of the expanded development program.

Crude oil output by the foreign oil consortium for 1956 was about 31 million cubic meters, as compared with about 19 million cubic meters in 1955. Under the oil agreement, the Consortium had guaranteed exports equivalent to 27.5 million cubic meters in the "agreement year" ending in January 1957. Since acquisitions of oil products from the Consortium for domestic consumption are normally about 2 million cubic meters, it appears that the agreed minimum for exports was exceeded by possibly 6%. Earlier estimates had anticipated exports of about 30 million cubic meters in 1956. This might have been attained except for a curtailment in production, mainly in November, because of lack of shipping space associated with the blocking of Suez through which one half to two thirds of Iranian crude is normally exported. The refinery throughput at Abadan was increased to somewhat more than half of crude production as a result of the shipping shortage. Iranian income from the oil industry amounted to \$142.4 million equivalent during the first nine months of 1956, \$112 million from oil revenues and \$30.4 million from rial purchases by the Consortium for local expenditures. Oil revenues for 1956 as a whole are reported as \$146 million. For the Iranian year ending March 20, 1957, foreign exchange receipts from oil should approximate \$200 million, or about 43% higher than the previous year.

If oil revenues paid to Iran by the Consortium amount to about \$150 million equivalent in Iranian year 1956/57, as appears likely, the Plan Organization would receive about \$86 million equivalent to carry out the Seven Year Program. During the first nine months of this period (ending December 20, 1956) Plan oil revenues were reported as about \$55 million,

and expenditures \$81 million. Plan expenditures during the Iranian year ending March 20, 1957 will probably be about \$110 million, making a total of \$137 million for the first year and a half of the Seven Year Program as compared with oil revenues of about \$112 million.

Some of the more significant development projects undertaken or carried out during the last part of 1956 were the approval and contracting for the construction of the Karaj dam at an estimated cost of \$53 million, the completion of a 300 ton per day privately owned cement plant near Teheran and the virtual completion of the Ahwaz-Teheran pipeline for supplying the Teheran area with products from the Abadan refinery. Foreign oil companies are reported to be negotiating with the Government for the development of the new oil field at Qum and the oil resources of the continental shelf in the Persian Gulf.

In respect of the General Budget, a deficit of Rials 2.45 billion is reported for the first ten months (March 21, 1956 - January 21, 1957) of the current fiscal year. The deficit for the same period in the year ending March 20, 1956 was Rials 2.53 billion. Both revenue and expenditures have been higher this year than last by roughly 27% for revenues and 21% for expenditures. For the year as a whole expenditures are now estimated at Rials 18 billion, and revenues at Rials 15.7 billion. The deficit of Rials 2.3 billion would be covered in part by \$20 million (Rials 1.5 billion) of U.S. aid and the remainder presumably would have to be borrowed from Bank Melli. However, there was no appreciable change in the Treasury debt to the Bank Melli during the first three quarters of the current fiscal year nor in the level of Treasury cash balances. Consideration of the 1957/58 budget is still in a preliminary stage but both revenue and expenditure estimates are considerably higher than in 1956/57. The estimated budgetary deficit, however, may be about equal to the actual deficit in the current year.

No significant inflationary pressures were evident in Iran during 1956, although prices appear to have risen 3 to 4% during the last half of the year. This is attributed to the Suez crisis and the stimulus to hoarding from the threatened curtailment of imports. The money supply also probably increased moderately during this period owing to some expansion of private bank credit and the \$20 million increase in foreign exchange reserves.

IRAN

	1954/55 <sup>1/</sup>	1955/56	1956/57	1956/57			
				I	II	III	IV
<u>Population (millions)</u>							
(Rough estimate)	na	na	19				
<u>National Income (mil. \$ equiv.)</u>							
(Rough estimate)	na	na	1600				
<u>Agricultural Production</u>							
(1000 metric tons)							
Wheat		2341	2300				
Rice		443	350				
Cotton (lint)		60	60				
Sugar beets		521	na				
<u>Crude Oil Production 2/</u>							
(million metric tons)	3.5	15.8	25.9	5.4	6.9	7.0	6.6
<u>Wholesale Prices (1953 = 100)</u>							
(End of period)	120	121		124	121	125	
<u>Cost of Living (1953 = 100)</u>							
(End of period)	122	126		132	130	133	
<u>Money Supply (billions of rials)</u>							
(End of period): Total	20.5	21.3		21.8			
Currency	11.3	11.2		10.4	10.5	11.0	
Deposits	9.2	10.1		11.4	na	na	
<u>General Government Budget</u>							
(Billions of rials)							
(a) Expenditures	10.9	14.0	18.7 3/				
(b) Revenues:							
(1) Internal Revenue	7.1	11.2	11.6 3/				
(2) Budget Oil Revenue	-	-	3.0 3/				
(c) Deficit	3.8	2.8	4.1 3/				
(d) Foreign aid received as budget support	3.6	4.1	na				
<u>Internal Government Debt 4/</u>							
(Billions of rials)							
(a) Treasury debt	10.6	11.3	11.4	11.1	10.1	11.2	
(b) Internal debt of Govt. agencies	5.3	6.1	6.7	6.7	7.0	6.9	
(c) Cash balances of Govt.	3.2	3.5	4.1	4.1	4.8	4.0	
(d) Net internal debt	12.7	13.9	14.0	14.0	13.3	14.1	
<u>Foreign Trade (millions \$)</u>							
Imports (except foreign oil companies)	248.2	288.7		56.3 5/	67.7 5/		
Exports (except oil)	121.1	103.5		17.4	24.2		
Balance	-127.1	-185.2		-38.9	-43.5		
<u>Foreign Exchange Received</u>							
From Oil Industry							
(a) Oil Revenues	20.2	92.1	150.0 6/				
(b) Purchases of rials by Consortium and NIOC	na	46.6	48.0 7/				
Total		138.7	198.0				
<u>Development Program (millions \$)</u>							
(a) Expenditures of the Plan Organization		27.0 8/		20.8	60.2		
(b) Oil Revenues of the Plan Organization		25.7 8/		16.5	38.8		
<u>Foreign Exchange Reserves</u>							
(Millions of dollars)	211	210		218	219	230	

- 1/ Data, except as specifically noted, are for Iranian year beginning March 21 and quarters thereof.  
2/ Oil production is for Oil Consortium Agreement years beginning in January and quarters thereof.  
3/ Budget estimates.  
4/ Includes only debt to Bank Melli excluding Exchange Certificate Account - other internal public debt is minor.  
5/ Excludes duty-free imports.  
6/ Estimate based on production data.  
7/ Estimate based on nine months data.  
8/ September 21, 1955 to March 20, 1956 only.

## PAKISTAN

While Pakistan managed to maintain a rather precarious economic balance in 1956, the Government budget for 1957/58 suggests that the country may well encounter increasing difficulties in containing inflationary pressures in the period immediately ahead.

The balance of payments surplus on current account in 1956 amounted to the equivalent of \$2.2 million, (compared to \$67.6 million in 1955); however, the official gold, dollar and sterling reserves increased by \$22 million, because a significant part of imports was financed by loans. The reserves increased by \$50 million in the first half of the year, but declined in the second half mainly as a result of food grain purchases to meet the second major food crisis within four years. The import of food grains on government account (excluding imports financed by grants and rupee purchases) was the main factor which raised total current account payments in 1956 by \$55 million over the 1955 level. A rather sharp increase in payments on invisibles was also partly responsible for the rise in total payments, the main contributing item being higher transportation payments (reflecting increased freight rates as well as a higher volume of shipping). Despite some easing of restrictions, imports on private account were virtually the same as in 1955 because of shipping difficulties following the closure of the Suez Canal. Foreign exchange receipts (excluding official donations) declined by the equivalent of about \$11 million in 1956 as compared to 1955. The decline in earnings was due mainly to smaller export availabilities and lower world prices of raw cotton, and to smaller purchases of raw jute by India. Exports were also affected by the post-Suez shortage of shipping space as well as by internal transportation difficulties resulting from the heavy movement of food grains.

According to the White Paper on the 1957/58 budget, the total food grain imports arranged during the past year amounted to 760,000 tons of wheat and 665,000 tons of rice. The bulk of these imports were arranged on the basis of grants or rupee payments. The foreign exchange cost to Pakistan is estimated at about \$35 million for the direct purchase of 117,000 tons of wheat and 244,000 tons of rice plus \$14 million for freight on food grains imported under aid programs. Of the total imports arranged, actual arrivals of wheat and rice through November 1956 are reported at 240,000 tons and 493,000 tons respectively.

The worst of the food crisis appears to have passed as a result of the substantial imports and the harvesting of the main rice crop in late 1956. Estimates of the size of this crop and the wheat crop to be harvested this spring have not yet been received. Consequently it is too soon to judge how the food position may develop in 1957. Pakistan has requested the United States Government to supply, on grant or rupee payment terms, three million tons of food grains during the next three years, of which two million tons would be for current consumption and one million tons for the constitution of a reserve stock to meet emergencies. While the U.S. Government cannot act on this request until new Congressional authorization on the disposal of agricultural surpluses is obtained, Pakistan has provided in its 1957/58 budget for the purchase (with rupees) of 1,375,000 tons of food grains, including 425,000 tons of wheat and 350,000 tons of rice for current consumption and 300,000 tons each of wheat and rice for establishment of reserves.

The revised budget estimate for the year ending March 31, 1957 shows the effects of the food crisis. While revenues were approximately the same and development and defense expenditures were slightly lower, as compared to the original budget estimates, other outlays were Rs. 214 million (44%) higher than originally estimated. This increase, which more than offset the shortfalls in development and defense, was due almost entirely to larger net outlays on State Trading associated with the procurement and distribution of foodstuffs. On the financing side, net receipts from foreign aid and loans increased only slightly, since a substantial part of the food grain assistance received during the year involved purchases for rupees. Other capital receipts (mainly intra-governmental deposit and remittance transactions) fell about Rs. 200 million below the original estimates. As a result of the increase in expenditure and the fall in capital receipts, the Government now expects internal borrowings and drawings on cash balances to amount to almost Rs. 600 million, which is Rs. 234 million over the amount originally budgetted and nearly double the total of the preceding year. The possible inflationary effects of this financing may have been offset to some extent by the accumulation of rupee funds in U.S. Government accounts as a result of rupee purchases of foodgrains.

The outstanding feature of the 1957/58 budget is a further substantial increase in outlays for development and State Trading, with the financing to be obtained largely by increased internal borrowing from the banking system. Defense expenditure is budgetted at the same level as shown in the revised estimate for 1956/57. Ordinary revenues are estimated to increase by about Rs. 70 million (5%) of which Rs. 58 million is expected to accrue from new tax measures, including higher income tax rates for individuals and corporations in the upper income brackets, a new excise duty on jute manufactures, and increased taxes on petroleum products.

Development outlays are estimated to rise by Rs. 450 million (42%) over the record level achieved in 1956/57. Agriculture in particular has received greater emphasis, which is generally in line with the recommendations in the Draft Five Year Plan. The increase in net outlay on State Trading by about Rs. 250 million over the relatively high level of last year is explained by the fact that a large part of the proposed foodgrain purchases would go into a reserve stock; to the extent that new purchases are placed in reserves, there would be no sales proceeds from which the Government could recover the cost of the purchases.

Internal borrowing and drawing down of cash balances are estimated at Rs. 1,069 million during the coming year. The White Paper states that a sum of Rs. 384 million, representing the cost of the food grain reserves, will be credited to the counterpart funds; the White Paper assumes that these funds will not be utilized, so that the inflationary effect of internal borrowing will be neutralized to this extent. Even after allowing for this factor, however, the large sum of Rs. 685 million would remain as a potential inflationary force. This by itself could produce an increase of about 12%-13% in the money supply, quite apart from the effect of a possible credit expansion to the private sector. Moreover, the operation of local currency funds accumulated as a result of foreign aid programs (such as the funds arising from rupee purchases of food grains) could have potential inflationary effects. For instance if funds are accumulated in one year and released in subsequent years, the effect in the subsequent years would be the same as a drawing down of government cash balances. In view of the size of the foreign aid program in Pakistan, and particularly the large and growing volume of commodity purchases for rupees, these operations should be carefully watched to make sure they do not contribute to inflationary pressures.

The proposal to undertake a substantial amount of deficit financing in 1957/58 follows a period when the money supply has already risen sharply. As a result of the increases in the money supply which took place both before and after the devaluation of the rupee in July 1955, a substantial monetary "overhang" in all probability exists in the economy at present which even under stable conditions would take some time to work itself out. The recent rate of increase in the money supply has been substantially more rapid than the rather high rate implied in the Draft Five Year Plan. The Draft Plan contemplated a rise in the money supply of 28% over the five year period from April 1955 to March 1960. By way of comparison, the money supply actually increased by 25% between April 1955 and December 1956, i.e. within a period of 1 3/4 years. The deficit financing contemplated in the coming year thus gives reason for concern that the country may lose through inflation a substantial part of the benefits accruing from the devaluation of the rupee and the development effort.

The Five Year Plan in final form is not yet available. The Plan was approved in principle at the first meeting of the newly-formed National Economic Council in February 1957. As approved, the total size was reduced by Rs. 80 million, as compared to the provisions of the Draft Plan, from Rs. 1,160 million to Rs. 1,080 million. The National Economic Council is scheduled to consider the Plan in detail at its next meeting in April, after which the final version would presumably be published.

PAKISTAN

	1952	1953	1954	1955	1956	1955				1956					
						I	II	III	IV	0	I	II	III	IV	
POPULATION (million)	79.3	80.4	81.6	82.8											
NATIONAL INCOME AT CONSTANT PRICES (billion rupees) 1/ 2/	18.3	18.9	18.9												
AGRICULTURAL PRODUCTION (000 tons) 3/															
Rice	8,151	9,151	8,405	7,209											
Wheat	2,390	3,683	3,172	3,315											
Cotton	339	256	295	310	286 4/										
Jute	1,218	645	832	998											
INDUSTRIAL PRODUCTION															
Cotton Cloth (million yds)	174	252	345	453	481 5/	106	102	113	133		123				
Cotton Yarn (million lbs) 6/	20	53	100	154	167 5/	32	38	40	44		43				
Jute Mfrs. (000 tons)	18 2/	44	53	89	143 5/	22	22	21	24		34				
GOVERNMENT BUDGET (million rupees) 2/															
Ordinary Revenue	1,286	1,125	1,157	1,299	1,303 4/										
Expenditure	2,093	1,849	1,775	2,038	2,776 4/										
(Development Outlay)	(378)	(482)	(544)	(765)	(1,070) 4/										
Excess of Expenditure	808	724	618	739	1,473 4/										
INTERNAL PUBLIC DEBT (million rupees) 7/	n.a.	1,859	2,224	2,126		2,258	2,330	2,180	2,126		2,151	2,310	2,439		
GOVERNMENT BALANCE WITH STATE BANK (million rupees) 8/	377	216	173	152	433	258	107	237	152		178	250	359	433	
COMMERCIAL BANK PRIVATE CREDIT (million rupees) 8/	792	802	984	1,183		1,048	904	902	1,183		1,168	936	988		
MONEY SUPPLY (million rupees) 8/	3,228	3,578	3,859	4,542	4,934	3,933	3,979	4,124	4,542		4,730	4,673	4,563	4,934	
PRICES - KARACHI COST OF LIVING INDEX (1953 = 100) 9/	90	100	98	94		95	92	95	95		96	96	99		
BALANCE OF PAYMENTS, CURRENT ACCOUNT (million rupees) 10/															
Receipts	1,916	1,551	1,275	1,908	2,696	399	374	472	663		763	607	499	827	
Raw Jute	(729)	(579)	(556)	(774)	(872)	(198)	(128)	(154)	(294)		(318)	(161)	(127)	(266)	
Raw Cotton	(807)	(683)	(370)	(436)	(443)	(91)	(133)	(93)	(118)		(162)	(119)	(51)	(110)	
Payments	2,767	1,428	1,437	1,619	2,686	336	330	456	497		567	623	651	845	
Surplus (+) or Deficit (-)	-851	+123	-162	+289	+11	+63	+44	+16	+166		+197	-16	-152	-18	
Errors and Omissions	-14	-2	0	0	0	0	0	0	0		0	0	0	0	
TERMS OF TRADE (1953 = 100) 9/ 10/	139	100	108	98		115	108	98	82		87	91	86		
STATE BANK GOLD, DOLLAR AND STERLING RESERVES (million rupees) 8/ 10/ (million U.S. dollar equiv.)	606 (185)	689 (208)	631 (191)	1,156 (243)	1,262 (265)	677 (205)	696 (210)	1,001 (210)	1,156 (243)		1,348 (283)	1,395 (293)	1,271 (267)	1,262 (265)	

1/ Prices: Average of 1949/50 to 1952/53

5/ Estimate

8/ End of period

2/ Year beginning April 1

6/ Surplus to mills' own consumption

9/ Average for period

3/ Crop years beginning in year indicated

7/ Central and Provincial Government debt held by banking system, end of period

10/ Note that Pakistan rupee was devalued by 30.5% on July 31, 1955

## INDIA

Various measures taken by the Indian government have not yet halted the drain on the country's foreign assets which has continued virtually without interruption since April 1, 1956, the beginning of the fiscal year and simultaneously the beginning of the Second Five-Year Plan. During the last nine months of 1956 total gold and foreign exchange reserves, including those held outside the Reserve Bank, fell by Rs. 2.17 billion (23.5%) on a gross basis and by Rs. 1.96 billion (23.3%) on a net basis.<sup>1/</sup> This decline was approximately equivalent to the entire reduction - Rs. 2 billion - which had been expected to take place during the entire second Five-Year Plan. For 1957 data on total gold and foreign exchange holdings are not yet available, but from January 4 to February 22 the gold and foreign exchange reserves of the Reserve Bank dropped by Rs. 381 million when the first Indian drawing of \$60 million (Rs. 286 million) on the IMF is left out of account.

As indicated in previous reports, the sharp rise in imports was primarily responsible for the pronounced decline in foreign assets. According to customs figures, imports in the last 9 months of 1956 amounted to Rs. 6.04 billion as compared with Rs. 4.78 billion in the same period of 1955. Thanks to a marked rise in the last quarter of 1956, exports during the 9-months period - Rs. 4.39 billion - almost reached the total of Rs. 4.44 billion during the corresponding months of 1955. The trade deficit in the last 9 months of 1956 totaled Rs. 1.65 billion as compared with only Rs. 0.34 billion in the same period of 1955.

It is evident, however, that a much larger volume of advance payments on imports has also been a significant factor. Normally import payments recorded in the balance of payments exceed considerably those recorded by customs. However, in the period April-September 1956, inclusive, for which balance of payments data are available, this excess of payments over recorded imports was as much as Rs. 829 million compared to Rs. 163 million in the corresponding period of 1955. Thus while import payments in the immediate past have greatly exceeded the expectations of the Indian government, it is not improbable that later payments will fall below those anticipated originally.

To strengthen its reserve position India obtained from the Fund early in February a drawing of \$127.5 million and a standby arrangement for \$72.5 million. The first \$60 million was drawn immediately and the balance in thirty days, i.e. this month (March). The standby arrangement remains in effect until March 1958.

Meanwhile, India must obviously take measures designed to bring its payments and receipts into better balance. Following the supplementary taxes enacted early in December, the government announced late that month a new import program for the first half of 1957 designed ultimately to

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<sup>1/</sup> These reductions are exclusive of the increase in assets (Rs. 777.4 million) resulting from the re-valuation of the Reserve Bank's gold holdings in October 1956.

save Rs. 600 million in imports annually. In this connection, however, it should be noted that additional freight charges are likely at least for the time being to add over Rs. 300 million to India's annual import bill. In a further effort to ease the foreign exchange crisis the Indian government also put into effect in January new foreign exchange regulations under which licenses for private imports of plant and equipment will generally be accorded only if payment on delivery is limited to 20% and remaining payments are spread, under credit arrangements, over a minimum period of 7 years. This policy obviously provides an incentive to contract medium-term suppliers' credits. Finally, on February 1, in order to curb the expansion of credit somewhat, the Reserve Bank raised the rate at which it would lend to banks against government and other eligible securities from  $3\frac{1}{2}$  to 4%. Since higher stamp duties on bills of exchange became effective at the same time, banks must now generally pay 4% when they borrow from, or rediscount with, the Reserve Bank.

In the longer run, however, it is unlikely that India will be able to avoid substantial readjustments in its second Five-Year Plan. Early in February the Finance Minister indicated that the total cost of the Plan, as the result of amendments and price increases, is now probably Rs. 54 billion instead of Rs. 48 billion as originally estimated. While the size of the Plan may never be reduced even now that the completion of the elections has diminished the political pressures, its phasing may be changed so as to spread it over a longer period. A review of government commitments under the Plan appears already in progress.

The scale of deficit financing will certainly have to be reduced in order to curb inflationary pressures and consequently further drains on the country's foreign assets. In the period October 1956 - January 1957, inclusive, money supply, for example, rose by Rs. 1.16 billion or 4.8% despite the deflationary effect of the large drop in foreign assets. Bank credit to the central and state governments during this period rose by Rs. 1.25 billion while bank credit expansion for the private sector amounted to Rs. 0.65 billion. The total increase in bank financing of the private and public sector was Rs. 1.9 billion compared to Rs. 1.07 billion in the corresponding period of 1955-56.

It is still uncertain whether the government will be prepared to cut public as well as private outlays in any curtailment or re-phasing of the second Five-Year Plan. Up to the present retrenchment measures have been directed almost wholly at the private sector. Private business sentiment, which in recent years has been quite buoyant, has been adversely affected by these measures, particularly the requirement for deposit of a certain portion of corporate reserves with the government. The index of ordinary share prices, for example, fell from an average of 124.9 in October 1956 to a low of 112.6 by the middle of January 1957. In view of the great contribution which private enterprise made to the success of the first Five-Year Plan, it is important to India's economic growth that a disproportionate cutback in private investment plans be avoided.

	INDIA												
	1952	1953	1954	1955	1956	1955				1956			
						I	II	III	IV	I	II	III	IV
POPULATION (million)	367	372	377	383									
NATIONAL OUTPUT (Rs. billion)													
Net National Produce at factor cost													
- at current prices 1/	98.2	104.9	99.1	n.a.									
- at 1948-49 prices 1/	94.6	100.4	101.7	n.a.									
Agricultural Production (1950 = 100) 2/	97	102	114	116	114.								
Industrial Production (1951 = 100)	104	106	113	122		122	128	128	126	130	142	144	
PRICES													
Wholesale prices (1938/39 = 100)	387	394	388	355	404	360	343	355	363	380	393	416	425
Consumer prices (1949 = 100)	103	106	101	96		95	93	96	98	98	104	108	110
CURRENCY AND BANKING (billion) 3/													
Money supply with public	16.8	17.1	18.3	20.5	21.8	19.2	19.8	19.5	20.5	21.8	21.9	21.1	21.8
Treasury Bills outstanding	3.35	3.46	3.50	4.60	6.67	4.72	5.13	4.41	4.60	5.95	6.43	5.79	6.67
Central Govt. deposits with Reserve Bank 4/	1.75	1.10	0.55	0.54	0.57	0.59	0.58	0.58	0.54	0.67	0.64	0.71	0.57
Scheduled Bank credit to private sector	4.68	4.61	5.38	6.36	7.88	6.23	6.10	5.93	6.36	7.61	7.57	7.54	7.88
CENTRAL GOVERNMENT BUDGET (billion) 1/													
Revenue receipts	4.35	4.16	4.41	5.02									
Current expenditures	3.96	4.07	4.02	4.89									
Capital outlay and advances to States	1.68	1.97	4.62	4.97									
OVERSEAS TRADE AND PAYMENTS													
Imports (c.i.f.) (billion)	8.07	5.70	6.17	6.48	9.08	1.71	1.54	1.49	1.75	2.04	1.91	2.03	2.10
Exports (f.o.b.) (billion)	6.17	5.32	5.63	6.08	5.97	1.63	1.32	1.61	1.51	1.58	1.32	1.42	1.65
Terms of trade (1953 = 100) 5/	105	100	108	98		110	103	99	97	93	n.a.	n.a.	
Foreign exchange and gold reserves 3/													
Gross (billion)	-	8.23	8.27	8.27	7.04	8.28	8.17	8.19	8.27	8.43	7.82	7.13	7.04 6/
Net (billion)	-	7.31	7.42	7.73	6.44	7.52	7.50	7.66	7.73	7.62	7.18	6.52	6.44 6/

Note: Many of the figures for recent periods are provisional estimates subject to revision.

1/ Financial year beginning April 1

2/ Crop year ending June 30 of year shown

3/ Figures relate to end of period indicated

4/ From November 1954 includes "foreign bills discounted"

5/ A rise indicates a favorable movement

6/ Revaluation of the Reserve Bank's gold in October increased reserves nominally by Rs. 777.4 million.

## CEYLON

In the last Quarterly Economic Review attention was drawn to the marked degree of internal and external financial stability maintained over the past two years, but it was suggested that the situation might now be changing, in part as a result of the more expansionist budgetary policies pursued by the present Government. It is too early yet to judge how far this prognostication will be fulfilled. External assets have fallen a little from the peak of Rs. 1,200 million reached in August 1956 and at the end of January stood at Rs. 1,179 million. On the other hand, the budget out-turn for the year ending September 30, 1956 (an approximate overall balance) has proved to be better than the Government expected some months ago, and the balance of government receipts and payments in the first four months of the fiscal year is actually slightly more favorable than during the corresponding period a year ago. The Finance Minister has budgeted for an overall deficit of Rs. 150 million in the current fiscal year (1956-57), and on the basis of the information at present available there seems no reason to expect a larger deficit than this; indeed, it may be smaller. Revenue is reported to be coming in well, and while there have been some supplementary estimates (about Rs. 40 million to date), there is likely as in previous years to be considerable under-spending on capital account. The cost of living and wage rates, as reflected in the official indices, have shown no significant change over the past four or five months.

One factor making for uncertainty in the immediate future is the large liquid assets at present held in Ceylon, particularly by tea companies. Thus private time and savings deposits with the commercial banks have risen from about Rs. 100 million at the end of 1953 to Rs. 200 million at the end of January 1957; and the steady increase in demand deposits also to some extent reflects inactive cash. The likelihood of this purchasing power being released in some way, either by increased domestic spending or by larger remittances abroad, has probably been increased by the present political uncertainties. For the time being it seems unlikely that the volume of re-investment in tea estates will be large. While the Prime Minister has made it clear that he will not carry out in the immediate future his party's platform calling for the nationalization of the tea industry, plantation owners have hardly been fully reassured about the long-term prospects. The nationalization of the bus companies this March reflects the government's sympathies with nationalization. It is improbable, however, that the government's overall program, including its fiscal policies, will be clarified until the new budget is introduced in July. This budget will be the first to be prepared by the present Government, which only took over after the main lines of last year's budget had been laid down.

Provisional trade figures now available for the calendar year 1956 show a 12% fall in the value of exports, as compared with 1955, and a 12% rise in the value of imports. The drop in exports is about equally attributable to lower prices and lower volume; the volume of tea exports is estimated to have declined by 3%, of rubber exports by 13%, and of coconut exports by 6%. On the import side prices were about 4% higher than in 1955 and volume about 7% higher. The price increase is, however,

wholly attributable to capital equipment, and it may be doubted whether the price index for this type of goods is a very reliable indicator. The increase in import volume is mainly attributable to food, textiles and other consumer goods; there was also a further increase in imports of fertilizers.

Thus a substantial part of the deterioration in the balance of visible trade in 1956 was due to the worsening of the terms of trade. Tea prices were falling in the first half of the year, recovered in the second half (partly because of Suez), and in recent weeks have started to fall again. Rubber export prices depend very largely on the terms agreed with China, and these have not yet been negotiated for 1957, which is the last year of the present pact.

A 3% government loan for Rs. 40 million was successfully issued on the market in February, and in the same month the Central Bank issued securities to the value of Rs. 15 million. About one-third of both issues was taken up by the commercial banks, and a further substantial part of the subscriptions to the government loan came from government institutions. In all less than half the loans represented genuine borrowing from the public.

It has been announced that the United States will grant aid to Ceylon to the extent of about \$6 million out of the appropriation for US fiscal 1957; this is in addition to the \$5 million granted under the agreement signed in April 1956. Under the new agreement, rather over \$2 million is to be accounted for by a gift of flour, the rupee proceeds of which are to be utilized for various development projects; apart from this, \$990,000 has been allocated for technical assistance, \$886,000 for irrigation and land development, \$855,000 for highway development and \$314,000 for the University of Ceylon. Most of the earlier loan is being spent on railway equipment and irrigation and land development. Canada continues to grant aid to Ceylon at the rate of about \$2½ million a year, including technical assistance, and small amounts are being received from other Colombo Plan countries, mostly by way of technical assistance.

C E Y L O N

	1952	1953	1954	1955	1956	1955				1956			
						I	II	III	IV	I	II	III	IV
POPULATION (million)	7.9	8.2	8.4	8.7	8.9	-	-	-	-	-	-	-	-
NATIONAL INCOME (Rs. billion)													
Gross National Product at factor cost	4.48	4.60	5.00	-	-	-	-	-	-	-	-	-	-
AGRICULTURAL PRODUCTION													
Index: 1951 = 100	107	97	110	-	-	-	-	-	-	-	-	-	-
PRICES													
Cost of Living: 1938-39 = 100	281	286	284	282	282	283	283	280	282	282	282	279	283
MONEY SUPPLY (Rs. million) 1/													
(with the public)													
Currency	357	335	342	385	401	343	349	376	385	385	409	409	401
Demand Deposits	539	492	615	688	726	611	570	636	688	664	647	655	726
Total	896	827	957	1,073	1,127	954	919	1,012	1,073	1,048	1,056	1,064	1,127
GOVERNMENT BUDGET (Rs. million) 2/													
Revenue	975	952	1,032	1,176	1,257	-	-	-	-	-	-	-	-
Expenditure	1,232	1,184	999	1,049	1,258	-	-	-	-	-	-	-	-
Deficit or Surplus	-257	-232	+34	+128	-1	-	-	-	-	-	-	-	-
PUBLIC DEBT (Rs. million) 1/2/													
(net of sinking funds)													
External	73	66	126	141	144	133	136	141	140	140	143	144	144
Internal	729	926	826	753	799	791	765	753	758	805	805	799	815
Held by Central Bank	130	216	84	19	14	18	20	19	18	37	17	14	11
GOVERNMENT CASH BALANCES (Rs. million) 2/	66	51	49	138	122	-	-	-	-	-	-	-	-
COMMERCIAL BANK CREDIT (Rs. million) 1/ 3/	241	253	307	324	397	348	320	352	324	328	379	-	397
FOREIGN TRADE (Rs. million)													
Exports	1,502	1,568	1,809	1,940	1,734	534	417	448	540	409	433	457	435
Imports	1,702	1,608	1,397	1,461	1,629	356	368	347	389	380	373	424	452
Balance	-200	-40	412	479	105	178	49	101	151	29	60	33	-17
Tea Exports	723	825	1,123	1,194	1,044	359	257	279	301	257	269	256	272
TERMS OF TRADE													
1948 = 100	109	122	155	160	138	179	146	139	148	137	134	133	(147)
EXTERNAL ASSETS (Rs. million) 1/	837	607	895	1,155	1,179	1,020	1,034	1,091	1,155	1,177	1,185	1,195	1,179

1/ End of period

2/ Annual figures refer to fiscal year beginning October 1 of preceding year

3/ Loans and advances

## BURMA

During the fiscal year ending September 1956 Burma had succeeded in overcoming most of the difficulties that had resulted from previous excessive government investment and falling rice prices. This was accomplished principally by reducing public investment and stepping up the volume of rice exports. By the end of the year foreign exchange reserves had risen 25% above the previous low, while the budget had been almost balanced and the money supply had remained unchanged for several months. During the second half of the year, a seasonal contraction in the volume of commercial bank credit to the private sector had offset the effect of the surplus in foreign transactions on the money supply.

Statistical information on the first quarter of the new fiscal year is as yet incomplete. However, further progress has evidently been made in the stabilization of the economy. From October to December government cash transactions were in surplus. Internal public debt declined from K.1,386 million to K.1,352 million, while government cash balances are reported to have shown little change. There was also a surplus in the balance of payments and at the end of the calendar year, foreign exchange reserves stood at K.672 million against K. 638 million three months before. Credit to the private sector was expanding seasonally. As a result of these changes, money supply is likely to have remained virtually stable. During the quarter under review the index of consumer prices has fallen by 2% owing to a seasonal reduction in food prices.

Prospects for the remaining months of the fiscal year 1956/57 are favorable. With an exceptionally good rice crop this year, growth in national output should exceed the 3% reached in 1955/56, when the rice crop was below average. The government deficit to be met from internal borrowing or cash balances is likely to be less than half of the total of K. 140 million anticipated by the budget. The shortfall in public investment, which was 10-15% of budget estimates in previous years, may well be greater this year owing to delays in shipping caused by the Suez crisis. Export earnings will probably continue at a high level. Total rice exports are expected to increase from the 1955/56 level of 1.93 million tons to over 2.08 million tons; the exportable surplus from current crop will probably be 1.8 million tons, while existing stocks totalling 750,000 tons at the beginning of the fiscal year will be reduced to make up the balance. However, the average export price per ton of rice is likely to fall from £34 during 1955/56 to about £32 during 1956/57, thus partly offsetting the greater export volume. While prospects for a further increase in exports of minerals are good, Burma is having difficulty at present in marketing its teak. More than two-thirds of teak exports went to India last year; these exports have now become affected by recent import restrictions imposed by the Indian Government. The government is considering an increase in the permitted imports for the private sector to a total of K.1,000 million

against K. 700 million in 1955/56 and has already somewhat extended the list of imports under open general license. However, the total volume of imports, including those of the government, may be restricted by the closing of the Suez Canal. On balance, foreign exchange transactions are likely to result in about the same surplus as during the preceding year (K.120 million).

A four-year development program ending 1959/60 is being worked out by the Government. Administrative and technical factors will continue to set rather severe limits on the government's ambition to step up the rate of development. From the standpoint of financial resources, a substantial amount of external assistance is already assured. Apart from a ~~\$2.0~~ million loan extended by the U.S. late in 1955 under the terms of P.L.480, negotiations are virtually completed for a new loan of \$25 million, repayable in local currency, which will be used to finance a number of social and economic projects still to be agreed. The Burmese government also expects to draw on an Indian loan of Rupees 200 million (\$42 million) convertible in sterling, which was originally extended in October 1955 but not utilized. This loan was renegotiated this month (March), provides for an interest rate of 4-3/4% and is repayable over 12 years beginning in 1960 instead of in five years under the old agreement. From West Germany credits up to D.M. 100 million (about \$24 million) are available under arrangements made in 1956 whereby German suppliers are insured by an agency of the German government for advances up to a maximum of 4 years to cover deliveries of equipment required for sound economic projects. The Burmese government also expects to receive K.150 million (\$31.5 million) in Japanese reparation during the current fiscal year. Finally, it should be noted that the Soviet government has undertaken to carry out a number of projects, including a stadium, a permanent industrial fair and a technological institute for which the Burmese government intends to reciprocate with equivalent "gifts" of rice.

\$21.7

	B U R M A						1955				1956			
	1951	1952	1953	1954	1955	1956	I	II	III	IV	I	II	III	IV
<u>POPULATION</u> (million)	18.7	18.9	19.0	19.2	19.4	19.7	-	-	-	-	-	-	-	-
<u>NATIONAL INCOME</u> (K billion) <u>1/</u>														
Gross National Product at market prices	3.68	4.08	4.62	4.59	4.79	5.01*	-	-	-	-	-	-	-	-
<u>RICE PRODUCTION</u> (million tons)														
Rice and Products	4.63	5.03	4.70	4.63	4.78	4.84*	-	-	-	-	-	-	-	-
<u>PRICES</u>														
Consumer's Price Index: 1941=100	354	338	334	311	317	361	293	300	343	335	334	381	378	371
<u>MONEY SUPPLY</u> <u>2/</u>														
With the Public (K million)	606	599	753	842	1,176	-	1,011	1,024	1,089	1,116	1,384	1,368	1,358	-
<u>CONSOLIDATED GOVERNMENT BUDGET</u> (K million) <u>1/ 3/</u>														
Receipts	681	701	956	864	980	1,098	-	-	-	-	-	-	-	-
Expenditure	473	645	903	1,245	1,471	1,158	-	-	-	-	-	-	-	-
Surplus or Deficit	+208	+ 56	+ 53	-381	-491	-160	-	-	-	-	-	-	-	-
<u>GOVERNMENT CASH BALANCES</u> (K million) <u>2/</u>														
(Incl. State Boards)	432	572	512	336	275	-	152	241	183	275	177	289	359	-
<u>INTERNAL PUBLIC DEBT</u> (K million) <u>2/ 5/</u>														
Total	218	370	413	774	1,201	1,352*	840	1,013	1,060	1,201	1,279	1,286	1,386	1,352
Held by Union Bank	n.a.	306	294	533	796	806	596	820	820	796	911	900	819	806
<u>COMMERCIAL BANKS CREDIT TO PRIVATE SECTOR</u> (K million) <u>2/</u>	159	162	148	163	190	-	195	165	133	173	238	222	179	-
<u>FOREIGN TRADE</u>														
Terms of Trade <u>1/</u>														
1952=100	88	89	122	105	95	-	-	-	-	-	-	-	-	-
Rice Exports														
million tons <u>1/</u>	1.37	1.15	1.20	1.27	1.67	1.93	-	-	-	-	-	-	-	-
million K <u>4/</u>	758	809	848	953	826	-	218	276	117	214	224	451*	-	-
Exchange Transactions (K million)														
Exports	963	1,153	1,219	989	1,016	-	229	214	261	312	236	315	319	-
Imports	658	778	952	1,097	931	-	253	238	218	222	235	303	263	-
Balance of Trade	+305	+375	+367	-108	+ 85	-	-24	-24	+43	+90	+ 1	+12	+56	-
Balance of Non-trade Transactions	- 92	-174	-288	-286	-209	-	+89	-56	-62	-52	+33	+32	-50	-
Change in Foreign Exchange Reserves	+213	+201	+ 79	-394	-124	-	+65	-78	-19	+38	+34	+44	+ 6	-
<u>FOREIGN EXCHANGE RESERVES</u> (K million)	792	993	1,072	678	554	-	613	535	516	524	588	632	638	672*
<u>SAVINGS OF THE PRIVATE SECTOR</u> <u>6/</u>	76	91	105	160	233	250	179	190	207	233	236	246	246	250

\* Provisional estimate.

1/ Annual figures refer to fiscal year beginning October of preceding year.

2/ End of period

3/ Net of current receipts and expenditures of commercial departments; does not include net change in internal public debt; revised estimates for 1955/56.

4/ Prior to 1953, data refer to fiscal year beginning October 1 of preceding year.

5/ Includes Govt. securities held by Union Bank, Commercial Banks, and the public; also includes provident funds, postal savings and liability on account of currency issue.

6/ Includes time deposits by the private sector at commercial banks, postal savings and Govt. securities held outside of banks.

## THAILAND

Owing principally to a sharp rise in rice and rubber exports in the last quarter of the year, Thailand's balance of payments and budgetary position were considerably more favorable for 1956 as a whole than had been anticipated earlier. The trade deficit for the year was reduced to some \$17 million as against a deficit of \$32 million for the first three quarters. The Government's cash deficit is estimated at Baht 600 million as compared with Baht 700 million in 1955. As in the past, most of the Government's deficit was financed by the Bank of Thailand, but credit expansion in the private sector appeared to have been less than in 1955. Official foreign exchange reserves increased by about \$13 million equivalent in 1956. Internal prices increased moderately during the year but not so much as to indicate substantial inflationary pressures.

Output in all three of Thailand's major export commodities - rice, rubber and tin - increased substantially in 1956. The 1956-57 rice crop (mainly harvested in December) is expected to reach 8 million tons, as compared with about 7.4 million tons in 1955. It was exceeded only by the record crop of 8.2 million tons in 1953. Production of both tin and rubber reached new post-war peaks, going up by 12% and 3% respectively over their 1955 levels. Teak output remained at the 1955 level.

Thai exports in 1956 are estimated at about \$338 million, a slight increase over 1955. Prices of the leading exports were generally somewhat lower than in 1955 but this was offset by higher quantities. Rice exports totalled 1.27 million tons against 1.24 in 1954. Rubber and tin exports rose in proportion to their respective increases in production.

The average unit export price for rice fell from \$118 a ton in 1955 to \$111 in 1956 and during the last quarter of 1956 it was about \$106. Rubber prices increased significantly for a while towards the end of the year after falling steadily from mid-1955 until mid-1956, but fell again in January. Tin prices followed a similar pattern.

Preliminary estimates of Thailand's current account balance of payments before aid, but after private transfers, show a deficit of some \$34 million in 1956 or \$10 million more than in 1955. ICA grant aid is tentatively put at \$29 million, and drawings on loans at about \$12 million in excess of repayments.

Government expenditures and receipts were both higher than in 1955. Expenditures increased mainly because of higher personnel expenditures and increased outlays for Government enterprises. Revenues went up slightly more than expenditures mostly as a result of greatly increased receipts from export duties on rice and rubber.

Data on monetary developments in 1956 are still incomplete but it appears that the year as a whole has been a relatively stable period.

Wholesale prices fluctuated around the level which was reached in the last quarter of 1955. The cost of living index, however, rose by 5%. The money supply showed only a moderate increase during most of the year, but partial data indicate that between November 1956 and January 1957, there was a rather marked rise. This suggests that some inflationary pressures are beginning to be exerted by the surplus in the balance of payments which developed in the last quarter.

Prospects for 1957 appear good as far as the balance of payments is concerned. At an average unit price of around \$100 a ton for rice it is reasonable to believe that Thailand would be able to dispose of its exportable surplus, which is estimated at around 1.5 million tons. Thus, export earnings from rice will probably equal or exceed the 1956 level. Moreover, trends in tin and rubber production and exports suggest that some increase in export earnings is likely from these commodities. It may be expected that imports will rise by roughly the same amount as exports but, given the prospect that foreign aid will continue at the 1956 level, no significant strains are likely to be imposed on Thailand's foreign exchange holdings, which total more than 85% of annual imports.

Analysis of the Government budget for 1957 indicates that the cash deficit may be about the same as last year's. Further increases in cost of living allowances to Government officials and larger debt service payments are expected to raise total expenditures significantly, but higher revenues from indirect taxes are expected to compensate for this increase.

THAILAND

	1951	1952	1953	1954	1955	1956	1955				1956			
							I	II	III	IV	I	II	III	IV
POPULATION (million)	18.8	19.2	19.6	19.9	20.3	20.7								
NATIONAL INCOME (billion baht)														
Net Domestic Income at factor cost	24.7	25.8	29.4	28.1	(32.2)									
OUTPUT OF PRINCIPAL PRODUCTS (000 metric tons)														
Rice (Paddy)	7,325	6,602	8,238	5,709	7,400*	8,000*								
Rubber	111	100	98	119	133	136*								
Tin (72% concentrate) <sup>1/</sup>	13.3	13.1	14.1	13.6	15.6	17.6	2.5	2.5	3.0	3.5	3.0	2.8	3.3	3.9*
PRICES														
Cost of Living in Bangkok, 1953 = 100	82	90	100	99	105	(111)	103	106	105	107	109	110	112	(114)
MONEY SUPPLY (billion baht) <sup>2/</sup>														
Currency and deposit money with the public	4.91	4.93	5.44	6.06	6.92		6.48	6.62	7.18	6.92	7.01	7.01*		
GOVERNMENT BUDGET - ESTIMATED CASH BASIS (billion baht) <sup>1/</sup>														
Revenue	2.52	3.34	3.93	4.24	4.37	5.06	.93	1.11	1.09	1.21	1.26	1.32	1.21	
Expenditure	3.23	4.27	(5.77)	(5.03)	(5.17)	(5.66)	1.15	1.35	1.32	1.11	1.21	1.25	1.23	
Deficit - or Surplus <sup>4/</sup>	-0.71	-0.93	(-1.84)	(-0.85)	(-0.70)	(-0.60)	-0.22	-0.24	-0.23	0.10	0.05	0.07	-0.02	
Foreign Exchange Profits of the Bank of Thailand and the Government	.43	.65	.58	.73	.22 <sup>4/</sup>	-	.08 <sup>4/</sup>	-0.07 <sup>4/</sup>	.01 <sup>4/</sup>	.17 <sup>4/</sup>	.08	-0.05	-0.05	
INTERNAL PUBLIC DEBT (billion baht) <sup>2/3/</sup>	1.73	2.59	4.88	6.26	5.81	6.32	n.a.	6.34	n.a.	5.81	n.a.	5.93	n.a.	6.32
EXTERNAL PUBLIC DEBT DISBURSED (million US\$ equivalent) <sup>2/</sup>	12.8	20.1	26.8	39.2	66.0	83.1	n.a.	n.a.	n.a.	66.0	n.a.	n.a.	n.a.	83.1
GOVERNMENT CASH BALANCES (billion baht) <sup>2/</sup>	0.75	0.84	1.22	0.97	1.11	(1.52)	0.94	0.98	1.06	1.11	1.39	(1.41)		
COMMERCIAL BANK CREDIT (billion baht) <sup>2/</sup>	.94	1.44	1.98	2.28	3.00		2.61	2.60	2.90	3.00	3.20	(3.27)		
FOREIGN TRADE (million US\$)														
Imports	272	304	330	312	334	355*	72	76	82	104	93	89	89	84*
Exports	367	329	323	283	335	338*	85	84	82	85	83	78	77	104*
Balance	95	25	-13	-29	1	-17*	13	8	-	-19	-10	-11	-12	16*
RICE EXPORTS														
Value (million US\$)	198	216	214	146	148	141*	41	47	33	27	32	36	34	40*
Volume (000 metric tons)	1,577	1,425	1,341	1,004	1,221	1,266*	346	381	290	231	290	325	284	367*
RUBBER EXPORTS														
Value (million US\$)	98	50	38	44	84	78*	20	17	25	23	22	15	14	26*
Volume (000 metric tons)	110	99	97	130	132	136*	34	30	37	31	35	31	27	43*
TIN EXPORTS														
Value (million US\$)	24	23	20	18	21	25*	5	4	5	6	6	5	7	7*
Volume (000 metric tons)	12.5	12.9	14.2	13.9	15.7	17.6*	3.9	3.4	3.8	4.6	4.1	3.9	4.6	5.0*
UNIT VALUE OF EXPORTS (in terms of US\$) 1953 = 100	104	102	100	93	88		85	87	88	91	83	79		
FOREIGN EXCHANGE RESERVES														
Bank of Thailand (million US\$ including gold)	359	352	302	273	298	311	295	317	299	298	309	308	308	311

\* Provisional estimate

<sup>1/</sup> Quarterly figures are less complete than annual figures

<sup>2/</sup> End of period

<sup>3/</sup> Held largely by the Bank of Thailand

<sup>4/</sup> Profits of the Bank of Thailand only. III and IV quarter data adjusted by eliminating \$250.1 million charge to Stabilization Account to retire BOT foreign currency debt to Government

Note: Figures in parentheses are unofficial estimates based on partial data.

## JAPAN

While the year 1956 set new postwar records in production and foreign trade and lifted living standards to the highest levels yet attained, there were growing signs of stress and strain in the economy at the beginning of 1957. The phenomenal rate of growth achieved in the last few years has severely taxed the productive facilities of the economy; and it is now evident that substantial new investment will be needed in the basic industries - iron and steel, power and transport - if the domestic market is to be satisfied and exports are to grow at the same time.

During the year 1956 industrial production as a whole rose by 23% and manufacturing output by 19%. Agricultural output was generally favorable. Paddy production, estimated at 13 million tons, was well above average although 10% lower than the bumper crop in 1955. While no figures on national income are yet available, it seems likely that the increase in real terms did not fall short of the rise of 8.6% achieved in 1955. Consumption has risen markedly despite a continued high propensity to save. Department store sales, for instance, were 17% above those in 1955 even though retail prices remained about the same.

Foreign trade continued to expand rapidly in 1956, exports rising by 27% and imports by 30%. Advances were made in virtually all exports with the notable exception of iron and steel where capacity was inadequate to keep pace with both domestic and foreign demand. Exports to the dollar area rose most sharply. The most marked expansion in imports took place in the last 9 months of the year as the government made more foreign exchange to replenish inventories of raw materials which had been considerably depleted in the continuing production boom. The year accordingly ended with a somewhat larger trade deficit - \$729 million as compared with \$504 million in 1955.

The larger trade deficit was offset to some extent by unexpectedly higher receipts from U.S. expenditures and procurement in Japan which, contrary to the expected trend, rose from \$547 million in 1955 to \$594 million in 1956, owing to larger procurement in Japan under U.S. aid programs. Although the increase in gold and foreign exchange assets dropped from \$339 million in 1955 to \$177 million in 1956, Japan at the end of the year had a comfortable gross reserve of \$1,646 million, equivalent to about 6 months' imports.

Japan's remarkable progress in the last few years has been achieved without jeopardizing financial stability. The increase in money supply has on the whole not been disproportionate to the expanding volume of business. During the latter part of 1956, however, indications of financial strain were becoming evident. While government treasury transactions with the public continued to exercise a deflationary effect, absorbing even a large part of the impact of the foreign exchange surplus on money supply, bank credit has been expanding at a much more rapid pace. Money has become tighter as business required more funds to meet increasingly urgent investment demands as well as the need for more working capital. Despite a substantial increase in the flotation of corporate bonds and shares

during 1956, business turned increasingly to the banks for more credit. Total bank loans and discounts accordingly rose by 27.2% during 1956 as compared with 9.7% in 1955. The Bank of Japan, which had been able to reduce its financial accommodation to other banks from ¥ 485.6 billion in March 1954 to ¥ 37.3 billion in March 1956, gradually raised its loans and discounts again to a level of ¥ 143 billion at the end of 1956. Money supply during the year increased by 13%; and there was some upward pressure on prices, with wholesale prices rising 8.7%.

With much of the Japanese industrial economy working at capacity, it is expected that the rate of economic expansion will slacken considerably. At home demand will undoubtedly continue brisk, particularly in view of the mounting investment requirements. Orders for capital equipment by Japanese industries have been rising markedly; and inquiries by the Ministry of International Trade and Industry indicate that Japanese corporations plan to step up their investment in plant and equipment in fiscal year 1957 by 14.8% over 1956. The largest increases are expected in the power, steel and non-ferrous metals industries - 37.7%, 34.8% and 33.2%, respectively. These investment plans, together with larger public outlays on roads and probably substantial investments by the Japan National Railways, will undoubtedly strain Japan's resources. The government, however, appears still determined not to add to inflationary pressures through its own financial operations. While the budget for the fiscal year 1957 (beginning April 1), provides for substantial cuts in income taxes, it is reasonable to expect that the overall increase in revenues under buoyant economic conditions will be sufficient to balance the anticipated expenditures of ¥ 1,137.4 billion.

The balance of trade and payments is also likely to be less favorable in 1957, and may in fact show a deficit. Although the rise in imports was in part caused by a desire to rebuild inventories, the general level of imports is expected to remain high, partly owing to larger purchases of rice abroad. At the same time the increasing preoccupation of Japanese industry with the home market and the inability to lift production capacity rapidly will make it difficult to sustain the export drive. Some concern has also been expressed in Japan about a possible decline in export demand owing to the slackening in the pace of economic growth in the United States and Western Europe. In addition exports to the United States will suffer from quotas imposed last January on exports of textile fabrics and certain items of apparel, even though the diversity of exports to the United States is such that the quotas on particular items may not be incompatible with a further advance in total sales.

It would be a mistake, however, to conclude at this time that Japan's long-term prospects will be seriously affected. Japan has shown an extraordinary capacity for economic growth and an increasing ability to finance investment out of its own resources. It is unreasonable to expect that the extraordinary rate of progress achieved in the last few years could be indefinitely sustained. While economic growth will almost certainly be slower in the year or two ahead, further progress can be achieved provided a really serious inflationary bout can be avoided.

JAPAN

	1952	1953	1954	1955	1956	1955				1956			
						I	II	III	IV	I	II	III	IV
POPULATION (millions) (as of October)	85.9	87.0	88.3	88.9	90.3	88.7	89.0	89.2	89.4	89.7	89.9	90.2	90.4
GROSS NATIONAL PRODUCT (billions of yen) (for year beginning April)	6,182	7,130	7,424	8,189									
INDEX OF REAL INCOME PER CAPITA (year beginning April) 1934-36 = 100	98.1	105.9	105.4	112.2									
INDUSTRIAL PRODUCTION (1934-36 = 100) (year or last month of quarter)													
Total	126.4	155.1	166.9	180.7	218.9	164.3	175.4	183.1	191.5	200.1	215.4	224.9	234.8
Manufacturing	128.2	159.7	173.8	189.4	231.1	188.4	187.5	197.1	208.7	212.8	226.9	237.6	247.8
RICE PADDY PRODUCTION (thousand metric tons)	12,404	10,298	11,392	14,810	13,073								
WHOLESALE PRICES (annual average; last month of quarter) 1953 = 100	100	100	99	98	102	98	97	97	98	99	101	104	106
COST OF LIVING (annual average; last month of quarter) 1953 = 100	93	100	105	104	105	104	105	103	104	104	106	105	106
MONEY SUPPLY (billions of yen) (end of period)													
Currency and Deposits with public	1,265	1,439	1,463	1,698	2,022	1,285	1,369	1,327	1,698	1,547	1,642	1,711	2,022
CENTRAL GOVERNMENT TREASURY TRANSACTIONS WITH PUBLIC (billions of yen) (excess payments)													
Balance for fiscal year beginning April or for calendar year quarter													
a. Including foreign exchange transactions	-0.7	63.6	-191.2	-285.8		102.5	-33.4	-58.5	-298.4	104.5	9.4	34.3	-146.5
b. Excluding foreign exchange trans- actions	17.9	-66.2	-116.8	-115.9		126.6	-2.0	-7.3	-245.8	139.3	18.8	36.4	-145.2
BANK LOANS AND DEPOSITS (billions of yen) (end of period)													
Loans and Investments (non-government)	1,981	2,502	2,752	3,309	4,264	2,774	2,818	2,898	3,309	3,400	3,580	3,902	4,264
Time Deposits	1,031	1,336	1,588	2,098	2,640	1,673	1,726	1,836	2,089	2,193	2,294	2,446	2,640
Government Deposits with Banks	93	84	84	166	186	238	150	175	166	254	176	195	186
VALUE OF TRADE (millions of U.S. \$)													
Imports c.i.f.	2,028	2,410	2,399	2,473	3,230	576	646	591	659	692	807	824	905
Exports f.o.b.	1,273	1,275	1,629	1,969	2,501	433	460	512	607	560	601	620	722
Balance	-755	-1,134	-770	-504	-729	-143	-186	-79	-52	-132	-206	-204	-183
VOLUME OF TRADE (1953 = 100)													
Exports	89	100	131	162		142	148	163	195	193	203	203	
Imports	73	100	103	107		102	109	101	115	122	141	140	
TERMS OF TRADE (1953 = 100)	96	100	100	100	106	97	99	100	102	104	106	106	107
PRINCIPAL EXPORTS													
Cotton fabrics													
Value (millions of U.S. \$)	180	179	252	230		49	50	58	73	74	55	50	
Quantity (million sq. yards)	762	914	1,278	1,138		252	246	279	362	363	260	258	
Machinery & transport equipment													
Value (millions of U.S. \$)	116	189	202	247		43	55	56	83	91	116	114	
Iron and Steel													
Value (millions of U.S. \$)	263	140	167	259		57	51	69	74	58	59	56	
Quantity (thousand metric tons)	1,633	843	1,187	1,989		505	493	495	496	362	356	322	
Rayon fabrics													
Value (millions of U.S. \$)	65	72	103	143		28	32	37	45	43	53	53	
Quantity (million sq. yards)	300	373	566	864		174	198	227	275	235	286	281	
Chemicals													
Value (millions of U.S. \$)	40	62	79	94		22	26	20	26	27	28	28	
BALANCE OF FOREIGN EXCHANGE TRANSACTIONS (in millions of U.S. \$)													
Total transactions	314	-193	100	494	293	82	58	175	179	124	125	6	38
U.S. Dollar transactions	188	209	-92	353	425	9	63	151	130	89	127	105	103
U.S. MILITARY EXPENDITURES AND OTHER GOVERNMENT PAYMENTS													
U.S. Dollar Receipts (millions of U.S. \$)	807	787	625	547	594	119	129	150	150	133	146	153	162
GOLD AND FOREIGN EXCHANGE (millions of U.S. \$) End of period	1,165	1,017	1,130	1,469	1,696	1,182	1,214	1,357	1,469	1,558	1,593	1,577	1,646