tisements and it is a large enough organisation to provide its members a fulfilling career. But this is a far cry from the game of musical chairs we are now witnessing.

Yields Slightly Higher

THE terms of the two new Central loans for an aggregate amount of Rs 250 crores indicate that Gov. ernment and the Reserve Bank have decided to keep the floor interest rate at 4.5 per cent. The 6-year 4 5 per cent issue offers a redemption yield of 4.58 per cent, which is slightly higher than the yield on comparable existing securities: the 25-year issue at 5.5 per cent is similarly more attractive than the 1989 loan. The downward adjustment required of the securities market is marginal. There has been no sudden jerking up of the structure of interest rates corresponding to the rise in bank rate from 4.5 per cent to *6* per cent, which would have involved a considerable depreciation in security prices. That the actual depreciation has been relatively small is mainly attributable to two reasons; banks have preferred to hold back their short-dated investments or to support their market prices instead of suffering a capital loss by outright sales; and the Reserve Bank has, through switching operations, ensured a modicum of stability in security prices. In the absence of bulk sales and purchases, market prices are nominal, and yields are out of alignment with the bank rate. The Reserve Bank and the market are both groping their way towards a new structure of interest rates.

It can be taken for granted that the Reserve Bank will have to extend a large measure of initial support to the new loans. The outstanding amount on the 3.5 per cent 1965 loan is Rs 1.54 crores, all of which is not likely to be offered for conversion, Government can retain subscriptions upto 10 per cent in excess of the amount offered. Banks will make hardly any net subscription except for the purpose of maintaining a safe cover over the minimum statutory requirements; their absorption will come later during the stack season when the Reserve Bank sells the new loans on tap—at slightly higher than the issue prices. Provident funds are expected to subscribe about Rs 80 crores over a period of time. The Life Insurance Corporation is likely to contribute Rs 20 crores, mainly by conversion of its treasury bill holdings. LIC changed over to this form of short-term investment when banks were debarred from paying interest on call and short notice deposits from the public. In other words, the loans will make very little impact on current liquidity. The impact, if any, will come only when banks start absorbing the loans in the next few months and then too only if the return flow of funds is as substantial as the Reserve Bank would like it to be.

There was a time when individuals and companies were fairly significant buyers of government securities. That class of subscribers has practically disappeared, partly because, in the case of individuals, investment through provident funds has replaced direct investment while companies have turned net borrowers.