

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-SEVENTH ANNUAL REPORT

1st APRIL 1956 — 31st MARCH 1957

BASLE

3rd June 1957

TABLE OF CONTENTS

	Page
Introduction	1
I. Monetary and Economic Developments	3
<p>Main features of 1956 (p. 3), national income and industrial and agricultural production in western Europe and the United States (p. 4), rate of growth and balance-of-payments situation (p. 5), domestic investment and gross national savings (p. 7), composition of investment (p. 8), savings and gross national product (p. 9), rise in the cost of living and in wholesale prices (p. 10), wage rises and productivity (p. 12), anti-inflationary monetary policies (p. 13), increase in the rate of turnover of deposits (p. 16), world-trade turnover (p. 18), gold and dollar holdings of western Europe (p. 20), prerequisites of equilibrium in international accounts (p. 22)</p>	
II. Economic Expansion and the Formation of Savings	23
<p>Developments in the various economic sectors in Europe and the United States in 1956 (p. 23), combined national product of the O.E.E.C. countries (p. 27), population trends and future economic growth in Europe (p. 29), distortions in the price system (p. 31), relationship between the allocation of resources and the external payments position (p. 32); saving and investment in the United Kingdom (p. 33), France (p. 42), the German Federal Republic (p. 47), the Netherlands (p. 54)</p>	
III. Money and Credit	61
<p>Discount rates and other measures of credit restraint (p. 61), trends in currency circulation and demand deposits (p. 63), factors influencing deviations from trend (p. 63), sources of credit other than the commercial banks and the capital markets (p. 67); credit policy in: the United States (p. 68), the United Kingdom (p. 73), France (p. 77), Germany (p. 82), Austria (p. 85), Switzerland (p. 86), Italy (p. 88), Belgium (p. 90), the Netherlands (p. 91), Denmark (p. 94), Norway (p. 95), Sweden (p. 96), Finland (p. 98); the effectiveness of monetary policy (p. 100)</p>	
IV. World Markets and Domestic Prices	104
<p>Continuation of inflationary pressures (p. 104), contrasting development of prices of industrial raw materials and of foodstuffs (p. 104), coal production and prices (p. 106), steel production and prices (p. 107), oil production (p. 108), impact of the Suez crisis on the oil situation (p. 109), prices of non-ferrous metals (p. 109), prices of rubber and of textile fibres (p. 111); prices and production of: wheat (p. 112), sugar and beverages (p. 114); world production of basic commodities (p. 115), the freight market (p. 116), changes in the cost of living and wholesale prices in various countries (p. 117), rents and other components of the cost-of-living index (p. 118), nominal and real wages (p. 121), wages as a cost factor (p. 122), wages and productivity (p. 124), the real rate of interest (p. 125)</p>	

V. Foreign Trade and Payments	127
World-trade turnover (p. 127), exports of manufactured products (p. 129), trade between eastern and western Europe (p. 131), importance of the Suez Canal in world trade (p. 132), U.S. exports and European imports of food-stuffs and fuels (p. 133), foreign trade and balance of payments of: the United States (p. 134), the United Kingdom (p. 135), Ireland and Iceland (p. 138), France (p. 139), Germany (p. 141), the Netherlands (p. 144), the Belgium-Luxemburg Economic Union (p. 145), Austria (p. 145), Switzerland (p. 146), Italy (p. 147), Denmark (p. 148), Finland (p. 149), Norway (p. 150), Sweden (p. 150); foreign trade of Spain (p. 151), Portugal (p. 151), Greece (p. 151), Turkey (p. 152), Yugoslavia (p. 152); international capital movements (p. 153), operations of the I.B.R.D. (p. 154), the International Finance Corporation (p. 155), the U.S. Export-Import Bank (p. 155); capital account of the balance of payments of: the United States (p. 156), the United Kingdom (p. 157), Germany (p. 158), certain other European countries (p. 158); liberalisation of trade (p. 159), G.A.T.T. (p. 160), European Economic Community (p. 161)	
VI. Gold Production and Monetary Reserves	165
Gold production in South Africa and other countries (p. 166), uranium production (p. 168), gold markets and hoarding (p. 169), London gold market (p. 171), price of gold coins (p. 172), German gold market (p. 173), monetary reserves (p. 174), the Marshall Plan and the building-up of monetary reserves (p. 180), United Kingdom, sterling balances (p. 181), transactions of the International Monetary Fund (p. 183)	
VII. Foreign Exchange	185
Extension of non-resident transferability in various E.P.U. countries (p. 185), main features of the system of transferability (p. 187), multilateral payments agreements with the Argentine (p. 189); exchange controls in: the United Kingdom (p. 189), Germany (p. 189), France (p. 191), Italy (p. 192), Austria (p. 192), Denmark (p. 193), Turkey (p. 193); sterling quotations (p. 193), Deutsche Mark quotations (p. 195); exchange rates in: eastern Europe (p. 197), Spain (p. 198), Latin America (p. 199), Indonesia (p. 202), Iran (p. 203); the Canadian dollar (p. 203), the goal of full convertibility (p. 204)	
VIII. European Payments Union	209
Prolongation of the Union after June 1956 (p. 209), the operations up to March 1957 (p. 211), the financial position of the Union in the spring of 1957 (p. 217)	
IX. Banking Operations during the Period 1947-57	223
Balance-sheet totals and volume of operations (p. 224), deposits (p. 224), assets (p. 225), gold position (p. 226), credits and investments (p. 227), profits and dividends (p. 229), technique of operations in the 1930s and since the war (p. 230)	
X. Current Activities of the Bank	232
Operations of the Banking Department (p. 232), assets (p. 233), liabilities (p. 236), second section of the balance sheet (p. 239), the Bank as Trustee and	

Page

Fiscal Agent for international government loans (p. 239), Depositary under the terms of the Act of Pledge concluded with the High Authority of the European Coal and Steel Community (p. 240), Agent for the O.E.E.C. (p. 241); financial results (p. 242), changes in the Board of Directors and executive officers (p. 243)

Conclusion 244

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Balance sheet as at 31st March 1957 and Profit and Loss Account for the financial year ended 31st March 1957.

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LIST OF TABLES AND GRAPHS

(Graphs are indicated by an asterisk)

	Page
I. Monetary and Economic Developments	
Gross national product, industrial and agricultural production	4
Production of passenger cars	4
Rate of growth of gross national product in selected countries	6
Domestic investment and gross national savings in selected countries	7
Fixed investment and investment in housing	8
Cost of living and wholesale prices*	11
Increase in earnings in manufacturing industry	12
Official discount rates*	14
United Kingdom and United States: Demand deposits and their velocity of circulation*	16
World trade*	19
Ratio of imports and exports to gross national product	19
Gold reserves and short-term dollar balances*	20
II. Economic Expansion and the Formation of Savings	
Industrial production*	24
Production of investment and consumer goods	25
O.E.E.C. countries: Increases in monetary demand and real output	27
National product and expenditure of O.E.E.C. countries	28
Western Europe: Changes in population of working age*	30
United Kingdom: Net national saving and investment	34
Net personal saving	35
United Kingdom: Current expenditure of the central government	37
United Kingdom: Saving, investment and changes in financial assets	38
France: Net national saving and investment	42
France and the United Kingdom: Business saving in relation to output.	43
France: Income, taxation and transfer payments	45
France: Saving, investment and changes in financial assets	46
Germany: Net national saving and investment	48

	Page
Germany: Saving, investment and changes in financial assets	49
Germany: Current receipts and expenditure, and net saving, of public authorities	50
Germany: Public authorities' funds placed with credit institutions	51
Netherlands and United Kingdom: Balance of trade and change in stocks*	55
Netherlands: Saving and investment	56
Netherlands: Income, saving and the financial surplus	57
Netherlands: Financial transactions by sectors	58

III. Money and Credit

Changes in official discount rates	62
Currency and demand deposits*	64
Standard deviations from trend	65
Currency and demand deposits: Deviations from trend*	65
United States: Formation of the money supply	68
United States: Loans and security holdings of commercial banks	69
United States: Ownership of government securities	70
United States: Sources and uses of corporate funds	71
United States: Short and long-term rates*	72
United Kingdom: Government finances	73
London clearing banks: Changes in selected items	75
United Kingdom: Short and long-term rates*	76
France: Formation of the money supply	78
France: New bank credit to the economy	79
France: New monetary savings	80
France: Short and long-term rates*	81
Germany: Formation of the money supply	82
Germany: Funds received and credit granted	83
Germany: Short-term rates*	84
Austrian National Bank: Main assets and liabilities	85
Austria: New deposits and credit granted	86
Switzerland: Changes in the balance sheets of sixty-two banks	87
Switzerland: Capital-market issues	87
Italy: New financial resources	88
Italy: Formation of the money supply	89
Belgium: Formation of the money supply	90
Belgium: Short and long-term rates*	91
Netherlands: Formation of the money supply	92
Netherlands: Net capital-market issues	92
Netherlands: Short and long-term rates*	93
Danmarks Nationalbank: Main assets and liabilities	94
Norges Bank: Changes in main assets and liabilities	96
Sweden: Formation of the money supply	96
Sweden: Changes in the main assets and liabilities of the commercial banks	97
Bank of Finland: Main assets and liabilities	98
Finland: New deposits and credit granted	99
Money supply and gross national product	102

IV. World Markets and Domestic Prices

International commodity prices*	105
World-market prices of industrial raw materials and foodstuffs*	105
World production of hard coal	106
World production of crude steel	107
World production of crude petroleum	108
Prices of five non-ferrous metals*	110

	Page
Prices of textile fibres and rubber*	111
World production of wheat	112
Wheat prices*	113
Prices of beverages and sugar*	114
World production of basic commodities	115
Ocean freight rates*	116
Cost of living and wholesale prices	118
Rents in relation to the cost of living	119
Components of the cost-of-living index	120
Increases in hourly wage rates	121
Cost of labour in Europe	122
Costs and prices in manufacturing industry*	123
Wages and productivity in manufacturing industry	124
Interest rates and the rate of depreciation of money	126

V. Foreign Trade and Payments

Turnover of world trade	127
Volume of foreign trade*	128
Exports of manufactured products	129
Western Europe: Trade with eastern Europe and the U.S.S.R.	131
International sea-borne shipping passing through the Suez Canal	132
United States: Current account of the balance of payments	134
United Kingdom: Current account of the balance of payments	136
United Kingdom: Distribution of exports	137
Ireland and Iceland: Foreign trade	138
France: Distribution of foreign trade	139
France: Distribution of foreign trade by currency areas	140
French franc area: Balance of payments	141
Germany: Balance of payments	142
Germany: Balance of trade by countries and areas	143
Netherlands: Balance of payments	145
Balance of payments of selected countries	146
Italy: Balance of payments	147
Northern countries: Net freight earnings	148
Northern countries: Balance of payments	149
Spain and Portugal: Foreign trade	151
Greece and Turkey: Foreign trade	152
Yugoslavia: Foreign trade	152
I.B.R.D.: Disbursed loans	154
United States: Capital account of the balance of payments	156
United Kingdom: Capital account of the balance of payments	157

VI. Gold Production and Monetary Reserves

World gold production	167
South African gold mines: Operating statistics	167
Estimates of "disappeared gold"	169
Dollar price of gold in London*	170
Prices of gold coins in France, Germany, Italy and Switzerland*	173
Gold reserves of central banks and governments	175
Changes in official gold holdings	176
Changes in official gold stocks	176
Gold and dollar holdings	177
Gold and short-term dollar holdings	178
United Kingdom: Sterling balances	182
I.M.F.: Exchange transactions and stand-by arrangements	183

VII. Foreign Exchange

Sterling quotations in New York*	194
Germany: Exchange rates*	196
U.S. dollar quotations in Argentina, Brazil, Chile and Colombia*	200
Canadian dollar quotations in New York*	203
Official currency values	207

VIII. European Payments Union

Amounts subject to bilateral agreements	209
Cash payments and receipts on renewal of the Union	210
Creditors' rallonges	211
Compensation mechanism	212
Credit granted to the Union*	212
Settlement mechanism	213
Credit movement	214
Interest rates on credit granted to and by the Union	215
Gold and dollar holdings	215
Bilateral amortisation agreements	216
Cumulative positions of member countries	217
Summary of Statement of Account	219
Credit outstanding*	220
Credit amortised and new credit received and granted	220
Credits granted and received, time outstanding	221
Utilisation of the quotas	222

IX. Banking Operations during the Period 1947-57

Balance-sheet totals and volume of operations	224
Deposits in gold and currencies	224
Assets	225
Gold position	226
Active resources and their utilisation	227
Assets*	228
Liabilities*	229
Profits and dividends	229

X. Current Activities of the Bank

Memorandum accounts	232
Gold position	234
Rediscountable portfolio	234
Time deposits and advances and other bills and securities	235
Time deposits and advances and other bills and securities	236
Deposits in gold and currencies	237
Short-term and sight deposits	237
Deposits in gold and currencies	238
German External Loan 1924	239
German Government International Loan 1930	240

TWENTY-SEVENTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle on 3rd June 1957.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-seventh financial year, which began on 1st April 1956 and ended on 31st March 1957. The results of the year's business operations are set out in detail in Chapter X, together with a review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1957.

The year was marked by an increase in the Bank's active resources and in the volume of its operations. The surplus amounted to 16,014,462 gold francs, against 11,642,683 gold francs for the preceding financial year. After the writing-off of the cost of a building purchased during the year and the transfer of 7,051,432 gold francs to the provision for contingencies, the net profit amounts to 8,212,987 gold francs, against 6,068,558 gold francs for the preceding year.

The Board of Directors recommends that the present General Meeting should declare a dividend of 31.50 gold francs, payable in Swiss francs in the amount of 45 Swiss francs per share, involving the distribution of 6,300,000 gold francs.

Ten years have passed since the resumption, at the beginning of 1947, of the Bank's active operations. These operations have naturally been influenced by the far-reaching changes which have taken place during this period in the economic and monetary situation, especially in Europe. A review of the banking operations carried out during the years 1947-57 will be found in Chapter IX.

Chapter I contains a general survey of monetary and economic developments in 1956 and the early part of 1957. Chapter II is devoted to a

special analysis of economic expansion and saving in selected countries of western Europe. The next five chapters deal with money and credit, world markets and domestic prices, foreign trade and payments, gold production and monetary reserves, and foreign exchange.

Chapter VIII is devoted to the operations of the European Payments Union, for the purpose of which the Bank acts as Agent for the Organisation for European Economic Co-operation.

In Chapter X an account is given of the functions performed by the Bank on behalf of the High Authority of the European Coal and Steel Community and as Trustee or Fiscal Agent for international loans.

The Bank has continued to co-operate on the technical plane with other international institutions, in particular the International Bank for Reconstruction and Development and the International Monetary Fund.

I. Monetary and Economic Developments.

During the year 1956 and in the early part of 1957 general economic expansion continued but in many countries of western Europe and in North America the rate of advance slowed down. The large increase achieved by the United States in 1955 in its renewed upsurge following the actual decline which took place in 1954 gave way in 1956 to a more modest upward movement. And the boom of exceptional dimensions which had prevailed in western Europe since 1953 seemed to have lost some of its momentum and to be settling down to a more moderate pace. There were, however, considerable differences in the rate of growth of the national product as between one country and another. The growth in investment also continued, but it, too, was less rapid than in previous years; and in some countries investment increased less fast than the national product. In the United States there was actually a fall in production in some industries, but this was more than offset by the progress made by others. The monetary authorities pursued a resolute anti-inflationary policy, which was, however, flexible enough not to prevent further economic progress.

In general, the restrictive monetary policies which were adopted in almost all countries in 1955 and continued and even strengthened in 1956 succeeded in moderating the inflationary pressure but did not entirely eliminate it. Prices rose, without exception, in all western European countries and also in the United States and Canada, although the effect of the Suez crisis on the prices of internationally-traded raw materials proved only short-lived and the economic consequences of the political tension in the second half of 1956 turned out, on the whole, to be less serious than had been feared. Largely because the degree of inflationary pressure was by no means the same in all the countries of the western world, the balance-of-payments positions showed much more marked differences than in 1955, varying from a large surplus (Germany) or roughly balanced accounts (Italy, Switzerland and Belgium) to large deficits (France, the Netherlands and Finland). This lack of balance in the international positions — of which the German problem is only one aspect — and the inflationary pressures with which it was intimately connected were the most disturbing aspects of developments in 1956 and also appear likely to dominate economic and monetary policy in the coming year.

Three features thus stand out in the economic picture of 1956: a new expansion both of national output and of investment, but at a generally lower rate; the persistence of inflationary pressure, with big differences from country to country; and a disquieting aggravation of balance-of-payments disequilibria.

With regard to the centrally-planned economies of eastern Europe, the information available indicates that production continued to expand, especially

in heavy industry. But certain tensions have arisen which have necessitated in some of these countries a revision both of the national production plans and the foreign trade programmes. Thus, relatively large quantities of consumer goods have been purchased abroad. In certain cases even the methods of economic control have had to be modified; there has, in particular, been a tendency towards a certain decentralisation.

* * *

It is interesting to compare the development of the national income with that of industrial and agricultural production. The relevant estimates which are now made in the principal countries are becoming increasingly complete and, in spite of the inevitable margins of error, increasingly accurate.

The gross national product at constant prices is estimated by the O.E.E.C. to have increased in western Europe as a whole by 3.6 per cent. in 1956 as against 6 per cent. in 1955, while in the United States it rose by 2.4 per cent. as against 7.2 per cent.

Gross national product, industrial and agricultural production.

Areas	1954	1955	1956
	percentage changes over preceding year		
Gross national product (at constant prices)			
Western Europe	+ 4.9	+ 6.0	+ 3.6
United States	- 1.5	+ 7.2	+ 2.4
Industrial production			
Western Europe	+ 10.0	+ 9.1	+ 4.2
United States	- 6.7	+ 11.2	+ 2.9
Agricultural production			
Western Europe ¹	+ 7.7	+ 0.8	+ 0.8
United States ²	-	+ 4.6	+ 0.9

¹ Crop years. ² Calendar years.

It was industrial production which everywhere mainly accounted for the increase in 1956; agricultural production remained more or less constant in western Europe as a whole and in the United States. In some countries,

Production of passenger cars (monthly averages).

Countries	1954	1955	1956
	in thousands of units		
France	36	46	54
Germany	43	59	71
Italy	16	20	24
United Kingdom	64	75	59
United States	463	660	485

however, certain key industries did not share in the expansion. In the United States and the United Kingdom the motor-car industry experienced a severe setback. The average monthly production of passenger cars fell off in the United States from 660,000 in 1955 to 485,000 in 1956; and in the United Kingdom from 75,000

to 59,000. In other countries the production of motor-cars continued to expand. Partly owing to the decline in the demand from the motor-car industry and partly owing to a strike in July 1956, the level of output in the iron and steel industry of the United States was also slightly below that of 1955. These setbacks in one or two important sectors retarded the overall growth, although the progress in other sectors was sufficient to keep total industrial output roughly stable in the United Kingdom and still rising in the United States. The view which has sometimes been expressed that in the United States the motor-car industry sets the pace for industry as a whole, or that when the former contracts the latter cannot expand, was thus not borne out by last year's experience. Another important sector in which activity declined in both countries was residential construction.

The significance of the slowing-down of the rise in the general level of activity needs to be interpreted in the light of a number of circumstances.

That economic expansion should become less rapid as an economy approaches full utilisation of its resources is inevitable. In most countries full employment of labour was achieved long ago, and in 1956 the effect of the increase in the labour force was partly offset in some countries by a shortening of the working week or by longer holidays. Nor could productivity per man-hour be expected to continue rising at the same rate as in the early stages of the expansion. Such possibilities of increasing productivity as the fuller utilisation of manpower already on the payrolls or the bringing into use of previously idle plant capacity have a natural limit. In addition, it was to be foreseen that the slowing-down in the rate of growth of investment would react back on the rate of growth of productivity. Such figures as are available for 1956 do in fact show that the rise in productivity per man-hour generally slackened, and even ceased altogether in some countries (in some, however, it seemed to be on the increase again in the early part of 1957). A special factor affecting expansion, particularly in France and Italy, was the reduction in agricultural output caused by the severe cold spell in February 1956.

While some slackening in the pace of an economic expansion which had already been going on for three years might, for the reasons given, be expected in the normal course of events, these reasons do not in all instances suffice to explain the large differences in the rate of growth in 1956 from one country to another. In some countries — the United Kingdom, France, Finland and the Netherlands — an important factor affecting the rate, making it low in the United Kingdom and relatively high in the other countries, was the policy adopted to deal with the balance-of-payments position.

In the United Kingdom the balance-of-payments deficit in the preceding year and the consequent loss of foreign exchange reserves led the authorities in 1956 to pursue a monetary and budgetary policy designed to reduce the pressure of domestic demand and thus to direct a larger proportion of the

Annual rate of growth of gross national product in selected countries.

Countries	1953		1954		1955		1956	
	Current values	Real values	Current values	Real values	Current values	Real values	Current values	Real values
in percentages								
Belgium . . .	0.9	3.9	3.7	3.1	6.2	5.2	5.7	2.2
France . . .	2.8	2.5	6.3	5.5	8.7	6.9	8.4	4.1
Germany . .	6.6	7.3	8.3	8.3	12.7	10.7	9.9	7.1
Italy	8.6	7.0	6.6	4.6	9.5	7.2	7.2	4.1
Netherlands .	6.3	9.0	9.6	5.6	9.8	7.6	7.3	3.9
Sweden . . .	3.1	3.8	4.3	4.6	8.4	3.9	5.7	0.8
United Kingdom .	7.0	3.7	6.3	4.6	6.2	3.2	7.2	1.6
United States	5.1	3.9	- 0.7	- 1.5	8.4	7.2	5.5	2.4

supply of commodities into export channels while at the same time removing the main cause of further increases in imports. It was not possible to obtain these results without a temporary halt in economic expansion. In the circumstances this reallocation of economic resources might be said to have been more desirable than a further rise in the gross national product, which could hardly have been achieved simultaneously. If nevertheless the pound sterling was under a strain throughout a large part of the year — and the authorities maintained the foreign exchange reserves only by borrowing from the International Monetary Fund — this was not because of any deficit on current account. In 1956 the current account actually showed a surplus of £233 million as against a deficit of £79 million in 1955. This surplus was, however, largely offset by overseas investment and debt repayment. Thus, when large withdrawals of sterling balances and other transactions predominantly of a speculative character occurred after the Suez crisis, a drain on reserves ensued.

In France the gross national product (in real terms) rose proportionately more than that of most other western European countries or that of the United States. But this increase was undoubtedly stimulated by strong inflationary pressure at home and achieved at the cost of a large external deficit, i.e. of a heavy drain on the country's gold and foreign exchange reserves. In the Netherlands, too, there was rapid economic expansion combined with an external deficit.

The position of the Federal Republic of Germany was quite different. There the degree of economic expansion was greater than in other European countries, while at the same time the balance of payments continued to show a large surplus. The accumulation of gold and foreign exchange proceeded, as in previous years, at a rapid rate: net gold and foreign exchange reserves increased from \$3.0 to 4.3 milliard from the end of 1955 to the end of March 1957. Germany's persistent surplus naturally creates a problem both for that country itself and for the other European

countries. In any case, the example of Germany clearly proves that a high rate of domestic expansion is not incompatible with a continued growth in monetary reserves.

* * *

Domestic investment, like the gross national product, expanded in most countries in 1956, but at a slower rate than in the previous years; in a few countries, nevertheless, domestic investment increased more rapidly than the national product, but in the majority of cases the ratio between the two was unchanged or even fell. This development, again, is in part a natural phenomenon to be expected after several years of investment boom, although it was certainly influenced by the tight monetary policy which the authorities had to adopt in order to fight the inflationary tendencies associated with this boom.

In France and the Netherlands there was an increase in the ratio of domestic investment to the gross national product, but only at the cost of a deficit in the balance of payments on current account. It is pertinent to look here at what may be called "gross national savings", a quantity which is equivalent to domestic investment plus the surplus in the balance of payments on current account, or minus the deficit. The ratio of this quantity to the gross national product declined in 1956 in both France and the Netherlands. In both cases domestic investment in 1956 exceeded national savings. In France in 1956 the ratio of domestic investment to the gross national product was 19.1 per cent., as against a ratio of national savings to the gross national product of only 17.0 per cent. This difference of 2 per cent. may seem small, but it means that roughly 10 per cent. of domestic investment was being financed by a sacrifice of foreign exchange reserves. In contrast to these two countries, the United Kingdom, where the ratio of domestic investment to the gross national product declined slightly in 1956, succeeded in improving its external balance on current account. That is to say, by redistributing economic activity and keeping consumption down, it

Domestic investment and gross national savings* in selected countries.

Countries	1953		1954		1955		1956	
	Investment	Savings	Investment	Savings	Investment	Savings	Investment	Savings
	as percentage of gross national product							
France . . .	17.3	17.3	17.6	18.8	18.2	19.3	19.1	17.0
Germany . .	23.8	26.3	24.5	26.3	26.3	27.2	25.7	27.5
Italy	20.6	19.4	21.1	20.7	22.7	22.5	22.6	22.2
Netherlands .	18.5	24.4	23.3	24.4	22.4	25.3	24.8	22.9
Sweden . . .	29.6	30.4	30.4	30.0	31.7	30.9	30.0	29.7
United Kingdom .	14.7	15.8	14.6	15.9	16.6	16.1	16.1	17.2
United States	13.9	13.3	13.3	13.2	15.5	15.4	15.9	16.2

* Foreign grants and other unilateral transfers are included in the balance of payments on current account and therefore in savings.

managed to raise the gross national savings ratio. A redimensioning of this kind is something which France and the Netherlands will undoubtedly have to undertake in the near future (indeed, they already began to take steps in this direction in the early months of 1957). A development similar to that in the United Kingdom occurred in Germany. These were the only major western European countries in which the ratio of gross national savings to the gross national product rose in 1956. In the case of Germany the accumulation of gold and foreign exchange reserves was equivalent to roughly 10 per cent. of domestic investment.

Some significant shifts have occurred in the composition of total investment. In Germany and the United Kingdom the proportion of investment in residential housing to total fixed investment has been falling since 1954, whereas in France and the United States this ratio began to decline only in 1956. In Italy, however, it has risen continuously throughout the last three years. In the United States there was an absolute contraction in 1956, even in money terms, in investment in residential housing, and in some of the other countries there was probably a decline in this type of investment in terms of constant prices. There was thus in most countries a shift towards a larger proportion of industrial investment, which has a more immediate effect on productivity.

Fixed investment and investment in housing.

Countries	Total fixed investment			Investment in housing					
	1954	1955	1956	1954	1955	1956	1954	1955	1956
	in milliards of national currency units						as percentage of total		
France	2,570	2,920	3,220	640	740	785	24.9	25.3	24.4
Germany	30.6	39.1	41.1	9.0	10.0	10.5	29.4	26.2	25.5
Italy	2,450	2,750	2,990	580	715	790	23.6	26.0	26.4
United Kingdom	2.6	2.9	3.1	0.7	0.6	0.6	25.6	22.5	21.0
United States .	50.3	56.4	61.9	13.5	16.8	15.3	26.8	29.4	24.5

The more moderate rate of expansion of gross savings in 1956 was due, to judge from the available statistics, mainly to the fact that business savings (undistributed profits) grew less rapidly than before or even declined — a movement which had started in some countries as early as 1955, when business savings fell in the United Kingdom and Sweden. The fact that it was precisely investment expenditure which was affected most by the restrictive monetary policy which the authorities had to pursue in 1956 in order to check a too rapid growth in aggregate expenditure — although in some countries the slowing-down of investment as a whole was partly due to the cuts in public investment — points to serious problems in the future in view of the importance which many countries attach to the maintenance of a continuously high rate of investment. The avoidance of a conflict between these two objectives of checking excessive increases in aggregate expenditure but not letting investment expenditure suffer unduly requires

that monetary policy, which may be the only instrument readily to hand when rapid action is needed, should over the longer stretch be supported by other policies more immediately appropriate to some of the problems involved. There is thus a need for some countries, if they wish to have a high rate of investment, to take measures specifically designed to increase the rate of national saving, whether it be in order to eliminate an external deficit, to provide the basis for a higher rate of domestic investment, to repay foreign debt, to undertake investment abroad, or for all these purposes. And these measures do not all lie within the field of monetary policy proper, although stable money is in the longer run a fundamental prerequisite for their effectiveness.

A comparison, on the basis of the national figures, of the statistical ratios of total gross savings or investment to the gross national product shows that they differ widely, ranging from 33.9 per cent. in Norway to 17.2 per cent. in the United Kingdom and 16.2 per cent. in the United States. But, for many reasons, these ratios are not strictly comparable from country to country. In the Scandinavian countries, for instance, repairs are included under the heading of investment; in the United Kingdom, the United States and Germany they are not. Capital expenditure by the government is not counted as investment in the United States, whereas it is in most other countries. The purchase of durable consumer goods is everywhere regarded as consumption. But even private motor-cars, for example, to a certain extent replace railways, and purchases of motor-cars replace investment in railways. Since the situation is similar in the case of other durable consumer goods, the investment ratio tends to be boosted in countries where durable consumer goods play a relatively small rôle compared with those where they play a large one. There are also a number of other pitfalls in such international comparisons.

None the less, calculations made by the O.E.E.C. on the basis of standard definitions show that the impression of considerable differences between countries remains when the investment ratios are made more closely comparable, though in a few cases the order of the countries with respect to the height of the ratio is changed. There seems also to be a certain rough correspondence between the differences in the investment ratios and the differences in the rates of general economic expansion, the countries with high investment ratios being on the whole also those in which the rate of increase of the gross national product is high, although allowance needs to be made here for other factors, apart from the investment ratio, which influence the rate of economic expansion, such as the rate of growth of the employed labour force and the proportion of total investment devoted to purposes (e.g. residential housing, public works) which have little immediate effect on productivity. In addition there are many ways of increasing productivity — such as improvements in sales and production methods — which require little or no investment.

In some countries there is a strong feeling that the recent rate of domestic investment has been below what is desirable in order to keep

productivity increasing at a satisfactory pace. And in a few of them even the existing rate of investment could not be fully covered by current domestic savings but had to be financed partly by making large inroads on gold and foreign exchange reserves (as in the United Kingdom in 1955, and in France and the Netherlands in 1956). In the case of Italy, with a large unemployed labour force to absorb into the productive process as well as improvements in productivity to provide for, it was particularly clear that a high rate of investment, made possible in the main by a high level of domestic savings, must continue to be an aim of paramount importance.

The problem of how to achieve a satisfactory rate of saving thus appears to be a matter of growing concern not only in the less-developed areas of the world but in some of the highly-developed ones as well, and even in the United States.

Attempts, some of which are described in Chapter III, have recently been made in many countries to raise the level of personal savings. It is doubtful, however, whether the incentives offered are in many cases sufficient to outweigh the factors — taxation, inflation, social security — which have during past years contributed in varying degrees in different countries towards diminishing the willingness to save. The urgency of this problem of increasing personal savings would be further increased were business savings to show a general decline in the future — a prospect which has already been opened up in some countries by the downward movement of the last few years.

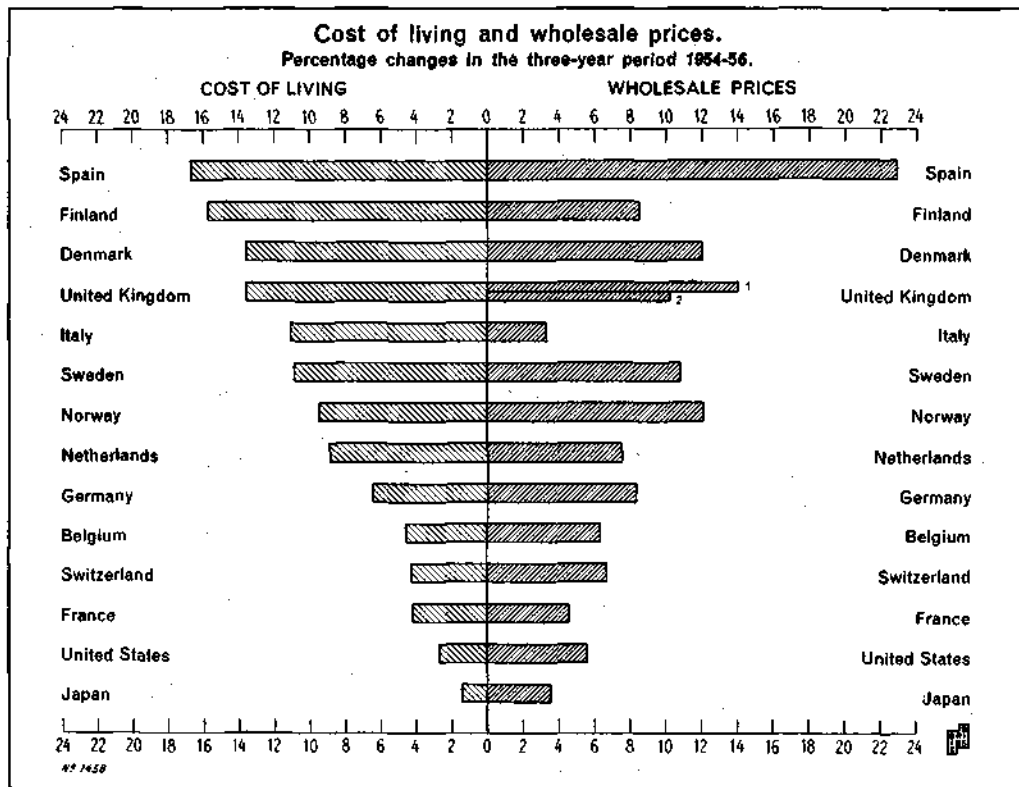
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If the levelling-off of investment was one of the characteristic features of the year 1956, another was the continuance of the upward movement of prices. Both the cost-of-living (or retail-price) index and the wholesale-price index rose, though to a varying extent, in all countries. The cost of living rose, between the end of 1955 and the end of 1956, in France by 1.2 per cent., in Germany by 1.8 per cent., in Italy by 4.2 per cent., in the United Kingdom by 3.2 per cent. and in the United States by 2.9 per cent. The maximum rise — 16.8 per cent. — occurred in Finland. Part of the rise in the cost-of-living index was due to special factors not connected with a current increase in aggregate money demand. Among these were upward adjustments in rents, public transportation charges and other "controlled" prices. Another such factor was the rise in the prices of fruit and vegetables caused by the bad weather conditions in the early part of 1956; this had a marked influence on the cost-of-living index in Italy. In France, on the other hand, the cost of living was kept down by various forms of subsidisation. Although the cost-of-living index, because of its influence on wage demands, is from some points of view the most important price index, the special factors which have influenced it in the various countries render it a very imperfect measure of the comparative degree of inflationary expansion in aggregate money demand. More representative from

this point of view is the wholesale-price index. This index also rose in all countries — by 4.8 per cent. in France, 2.3 per cent. in Germany, 1.1 per cent. in Italy, 3.8 per cent. (for manufactured goods only) in the United Kingdom, and 4.5 per cent. in the United States.

The rise in the price level in 1956 may not, taken by itself, seem very alarming. To put it into the right perspective it is necessary, however, to consider it as one more link in a chain of price increases which started in most countries three years ago. The cumulative rises in the cost-of-living and wholesale-price indexes since the end of 1953 can be seen from the graph on this page.

There is yet another reason why a comparison of the upward movements of prices is an imperfect indicator of the degree of inflationary pressure prevailing in the various countries. Some countries have increased the supply of commodities on the home market and thus slowed down the price inflation by encouraging larger imports through the removal of quantitative and other restrictions. Such action causes a given increase in aggregate money demand to press less heavily on the domestic price level than it otherwise would and more heavily on foreign exchange reserves. France used this method in 1956 in spite of its immediate effect in aggravating the deficit in the balance of payments; Germany used it as a means of deliberately reducing its surplus.



The inflationary movement of 1956 was fed partly by additional bank credit, and partly — in some countries preponderantly — by increased drawings on existing bank balances, as will be observed in more detail below. The main channels — budget deficits, business investment, and increased costs due to higher wage rates — through which the additional funds may initially be drawn into circulation varied in relative importance in the different countries.

In certain countries, as for instance France, the principal of these channels was the budget deficit, and strong measures are required — certain steps have, indeed, already been taken — to reduce it. In Italy the deficit is being steadily reduced. In Germany there was a considerable budget surplus, which provided the basis for a further accumulation of external reserves, besides making the government a net lender to the domestic economy.

But even in those countries in which the budget is roughly in equilibrium the level of public expenditure as such gives cause for concern and may be an indirect source of inflation. If the government absorbs an excessive proportion of the country's resources and/or encourages consumption by very large transfer payments, either it contributes to inflation, inasmuch as savings may be cut down to below the level required to finance the investments that are being undertaken in the economy, or it forces the monetary authorities to tighten credit conditions still further in order to reduce investment.

Another source of inflation — which became increasingly prominent — was the rise in wage rates. In most countries hourly earnings (inclusive of overtime and holiday pay but exclusive of social security benefits) rose much faster in 1956 than in the preceding year or two; and in some of them (including France, Germany, the United Kingdom and the United States) the rise in wages in 1956 has outstripped the increase in productivity even in manufacturing industry, where this increase is above the average for the economic system as a whole. In some countries wage increases have been running ahead of average productivity for several years.

Annual increase in hourly earnings in manufacturing industry.

Year	France	Germany	United Kingdom	United States
	in percentages			
1954	5.7	2.6	5.7	2.3
1955	7.3	6.7	8.4	3.9
1956	10.6	8.8	8.4	5.3

This tendency towards wage-led inflations may be helped rather than hindered by certain forms of the practice, increasingly in vogue, of linking wage demands to increases in productivity. If the demands were kept within the rise in average productivity over the whole economic system, there would doubtless be few cases in which inflation would ensue. What is

dangerous, however, is the habit which is spreading in many countries of bargaining for wage increases on the basis of the actual, or even the future, expected rise in productivity in the particular industry concerned. Since those industries which are selected by labour to start a new round of wage increases are as a rule those in which the rise in productivity is greater than average, and since competition in the labour market must sooner or later bring wages in other sectors of the economy into line, prices in the sectors in which productivity has not risen so fast will have to go up even if those in the industries in which the wage rise started do not. An interesting — and disturbing — consequence of this fact is that if, as seems probable, productivity increases in future less fast in agriculture and in the distributive trades than in manufacturing industry, the cost-of-living index is likely to move upwards more rapidly than the wholesale-price index. And if wages are linked to the cost of living, this will have the effect of reinforcing even further the inflationary tendency; this effect will be intensified if the increases claimed even exceed the rise in productivity in those sectors in which it is growing fastest, for in that case they will tend to raise prices even in those sectors.

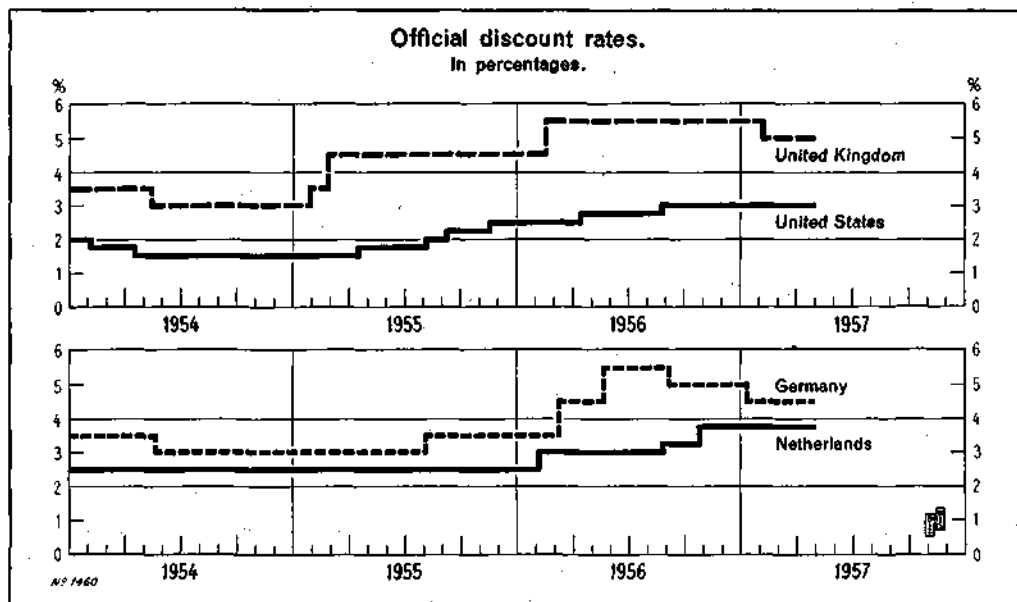
A case which merits attention from this point of view is the new wage agreement concluded in the American steel industry in the summer of 1956. Under the terms of the agreement annual increases in direct wages and a large number of ancillary benefits were granted for three years ahead. The package gain for the three-year period was valued by the union at 45.6 cents an hour, excluding the cost-of-living adjustment: 20.3 cents in the first year, 12.2 in the second and 13.1 in the third. The United States Steel Corporation, on the other hand, estimated the overall rise in labour costs at 57.5 cents an hour: 24 cents in the first year, 16 in the second and 17.5 in the third. The average wage of steel workers at the time of the agreement was \$2.47 an hour, so that the rise in labour costs by the end of the third year would amount to about 20 per cent. It was felt by the companies concerned and also by neutral observers that this outstripped the rise in productivity that could be expected during the three-year period, and the price of steel was immediately raised by, on the average, \$8.50 per ton, or 6.25 per cent.

* * *

The reactions of the authorities in the various countries in 1956 to the threat of a further decline in the value of money fall into two broad patterns. In a first group of countries — and this was by far the larger group — the authorities made use in 1956 of traditional instruments of monetary policy, such as increases in the discount rate — coupled, however, in some cases with less orthodox measures. In a second group of countries, the authorities refrained from raising the discount rate and relied entirely on other methods of combating inflation or took no energetic anti-inflationary action at all.

The first group includes the United States, the United Kingdom, Germany, the Netherlands, Sweden and Belgium. All these countries

raised their discount rates during 1956, some of them several times. In Germany, however, the discount rate was lowered again in September from 5½ to 5 per cent. and further reduced in January 1957 to 4½ per cent.; and in the United Kingdom there was also a reduction — from 5½ to 5 per cent. — in February 1957. The reasons were, in the case of Germany, that investment was slowing down considerably; moreover, it was hoped that the narrowing of the interest-rate differential between Germany and other countries might help to reduce the influx of foreign exchange. In the United Kingdom the central bank followed the market, in which the Treasury bill rate had declined; as was officially pointed out, this action was not intended to be interpreted as a “green light”. In April 1957 the German central bank again tightened the reins — though without raising the discount rate — by increasing the reserve requirements and by certain other measures.



Some of the central banks in this first group relied, however, just as much on newer methods of control as on the discount rate. In the United Kingdom the “credit squeeze”, i.e. the pressure exerted on the banks — in response to official exhortation — to reduce their advances, was maintained throughout 1956 and in the early months of 1957. This type of monetary control was also resorted to in Sweden, where the banks were advised to cut down their advances (other than those for residential construction) to — finally — 95 per cent. of the figure at which they had stood in July 1955. Another weapon which came increasingly into prominence last year was the control of consumer credit. The United Kingdom made the terms for hire-purchase transactions more severe in February 1956 — apparently with success, to judge by the smaller increase, or actual decline, which took place in 1956 in sales of the most important durable consumer goods, especially motor-cars; in Sweden the Board of Trade made a gentleman’s agreement with car dealers to raise the down-payment to 40 per cent.; and in the

Netherlands down-payments were also increased, while at the same time the central bank induced the banking system to cut down its lending to finance companies. In Germany the central bank refused to rediscount bills representing instalment credit. The growing use of such ancillary instruments — in some countries the measures taken in the last two years were quite a new departure from traditional policy — reflects in part the necessary acceptance of the fact that modern economic conditions have weakened the effectiveness of moderate rises in interest rates in checking investment. Thus house-building, which is normally highly sensitive to changes in the cost of credit, is now subsidised in many countries; in a number of instances tax rates have reduced the importance of the interest rate as a cost factor; and policies of over-full employment are leading many business men as well as private borrowers to expect continuous price increases to act as a normal offset to higher costs. Other and more direct methods of credit control thus seem destined to gain in importance in the future unless ways are found of making the interest-rate weapon fully effective again.

As has already been pointed out, the price level continued to rise in all the countries in the first group, despite the anti-inflationary policies pursued by the monetary authorities. This fact does not mean that these policies were a failure. Prices would have risen more without them; and in some cases — e.g. that of the United Kingdom — the balance-of-payments difficulties would have been aggravated. Nevertheless, the question remains why the tighter monetary policy did not prevent the price rise.

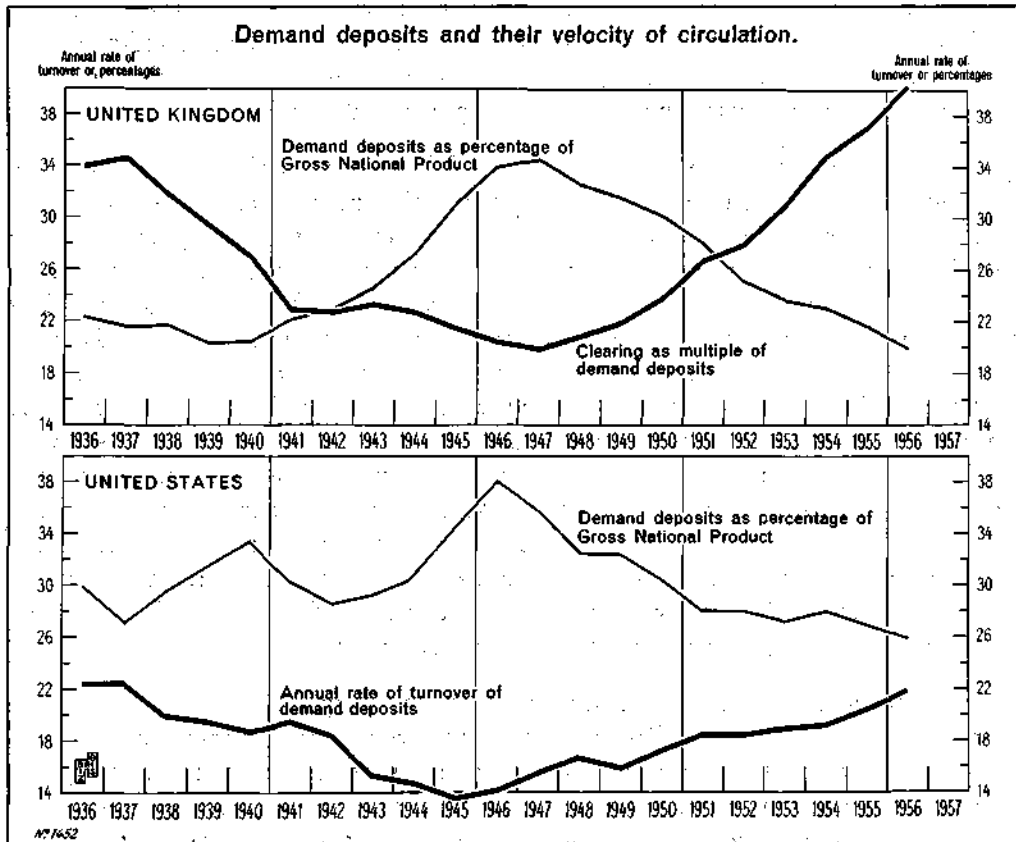
A first point to notice is that the monetary authorities in all the countries concerned succeeded in regulating the money supply — currency in circulation plus demand deposits — to the extent that its yearly average rose less than the gross national product (Germany, Sweden, the Netherlands and the United States) or even declined somewhat (the United Kingdom). The pressure put on the banks in some of the countries to reduce their advances, in conjunction either — as in the United Kingdom — with the effect of the continually falling market for gilt-edged securities in making bond purchases temporarily unattractive to the banks or — as in the United States — with the effect of the banks' shortage of liquid reserves in obliging them to sell securities in order to satisfy an additional demand for bank loans, played a decisive part in restricting the growth of the money supply. At the same time the rise in the rates paid by the banks on time and savings deposits caused a relative shift by customers from demand deposits to these longer-term deposits, which are not part of the money supply.

Along with the official discount rates and deposit rates, the rates on short-term paper, such as Treasury bills and commercial paper, and on call loans also increased. These short-term rates generally rose more than the longer-term rates, with the result that the spread between interest rates narrowed. In some countries the short rates even rose temporarily above the longer rates. This was the case, for example, in the United Kingdom, where in 1956 the rate on Treasury bills averaged 4.93 per cent. as against a

yield of 4.73 per cent. on long-term government bonds (consols), and in Germany, where the call-money rate in the second quarter of 1956 considerably exceeded the yield of mortgage bonds.

The rise in the rates on short-term paper, like that in the rates on the longer-term deposits, also affected the form in which business kept its liquid funds. The rise in these rates made it worth while for business firms to keep their demand deposits at an absolute minimum and to put their secondary liquid reserves partly on time deposit but partly also into Treasury bills and other short-term paper. This meant that the issuers of this short-term paper — and in particular the Treasury — received funds which had previously been more or less idle deposits; in other words, the velocity of circulation of money increased. The relative shift to time deposits had a similar effect inasmuch as the remaining demand deposits had to become more active in order to finance the same (or rather, an increasing) business turnover. It should be noted also that business drew directly on its liquid funds for the purpose of financing its own investments.

In the United Kingdom and the United States this rise in the velocity of circulation of money has been going on, as is clearly shown in the



Note: For the United Kingdom current-account deposits of eleven clearing banks and the amount of monthly clearing transactions. For the United States demand deposits held in 337 centres (excluding New York) and the rate of turnover of such deposits.

preceding graph, for several years. In the graph demand deposits are shown as a percentage of the gross national product, and this percentage has been declining in the two countries since 1947 and 1946 respectively. At the same time the annual rate of turnover of deposits is seen to have risen continuously. In the early stages, the rise in velocity was probably mainly the result of the working-off, following the removal of price and quantitative controls on commodities, of the "excess liquidity" to which these controls had led previously. Their removal took place in 1946 in the United States but was spread over a number of years in the United Kingdom. Later on, when the cheap-money policy was abandoned, the rising interest rates undoubtedly induced, through their effect on "liquidity preference", a further increase in velocity.

The rise in the price level in 1956 thus seems to have been largely made possible, in some of the countries where interest rates were raised, by the activation of liquid reserves previously held in the form of demand deposits and the consequent rise in the velocity of circulation of money. And this development points to one of the paradoxes and difficulties of monetary policy: the measures which must be taken to restrict the money supply — in particular the raising of interest rates — may at first have only a weak effect on the total volume of spending because they lead simultaneously to an increase in the velocity of circulation; hence a given restriction of the money supply will have a correspondingly smaller influence on price developments. Only as the idle deposits are more and more absorbed into active circulation can monetary policy restrict the money supply with full effect.

The second group of countries — those which in 1956 did not make use of the discount rate (although they may have done so in the early months of 1957) but relied on other methods of control or else took no drastic action at all — consists of Norway, France, Italy and Switzerland.

Norway relied entirely on the "credit squeeze". France, faced with a large budget deficit and a heavy demand for investment goods, took some action in the field of monetary policy, though in 1956 its main effort to control inflation took other forms. As far as monetary policy was concerned, the terms governing hire-purchase transactions were made more severe and the maximum amount of consumer credit that could be granted by the institutions specialising in this line of business was reduced. In July 1956 the amount of short-term government securities which the banks were required to hold was fixed at 25 per cent. of their deposits, which meant an overall increase of some Fr.fcs 80 milliard and a reduction in the banks' possibilities of granting credit to the private sector. In addition, the Treasury resorted to long-term borrowing from the public so as to ensure that the financing of its cash requirements would not lead to the creation of new money by the banking system. It was also hoped that the government's receipts from its issues of long-term securities in the autumn of 1956 would exceed its current cash

requirements, so that the liquidity of the banking system would be temporarily reduced at a time when the expansion of bank credit usually reaches a seasonal peak.

Apart from these measures, the government tried to combat the inflationary pressure by a general price freeze (July 1956), and a special effort was also made to keep the cost of living from rising in order not to set in motion the sliding wage scale. Taxes on certain consumer goods were abolished, and the customs tariff on imported meat was suspended. In addition, the government, as part of its anti-inflationary policy, did everything in its power to increase the supply of goods, particularly from abroad. This was done by reducing, for a number of products, the special tax which had been introduced earlier to offset the effects of the liberalisation of imports, and by raising the import quotas, especially for raw materials and equipment.

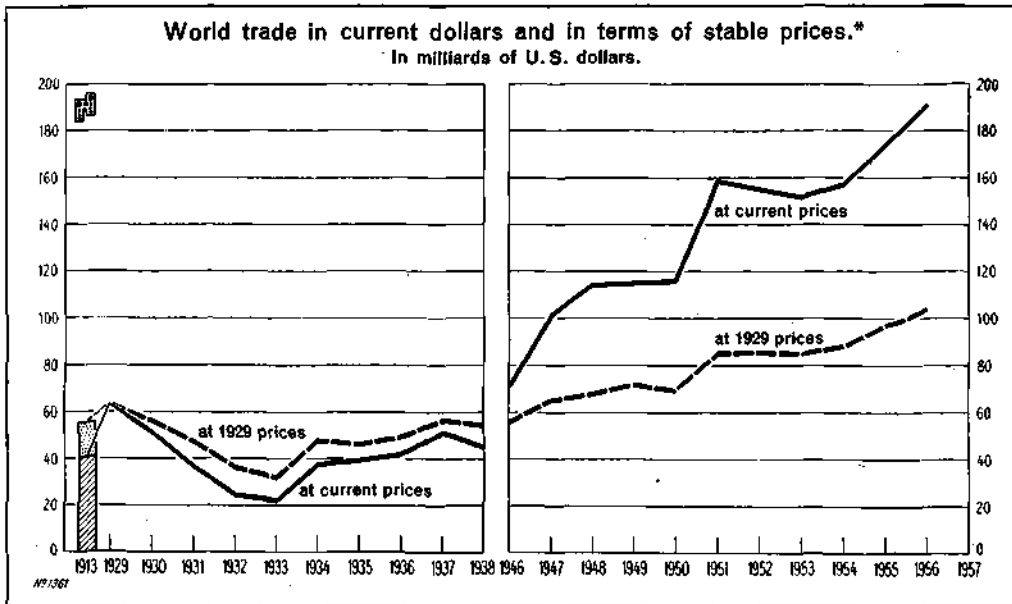
It was thus possible to avoid excessive price rises, but it is becoming increasingly urgent to attack the fundamental causes of the external deficit, which has assumed dangerous proportions. Steps were in fact taken in this direction in the spring of 1957, and in April the Bank of France raised the discount rate from 3 to 4 per cent. At the same time considerable reductions in public expenditure and an increase in taxation were announced.

In Italy, where the wholesale-price level rose less than in the majority of countries and where there was no pressure on foreign exchange reserves, no strong measures were taken in the field of monetary policy proper, the main restrictive influence being exercised by the improvement in the budget position of the government. In Switzerland the liquidity of the banking system was reduced by the sterilisation of the budget surplus; in mid-May 1957, however, this country raised its official discount rate by 1 per cent.

* * *

World-trade turnover reached a new record level, having increased in 1956 by 10 per cent. According to all available evidence, this expansion was greater than that in world output. In the industrialised countries the ratio of imports to the gross national product had been rising ever since 1954, though in the United Kingdom this movement came to a halt in 1956. The same is true on the export side, with the exception, this time, of France, where in 1956 the high level of domestic demand attracted resources into production for the home market. It seems that a growth in the domestic economy increases the propensity to import.

One of the main sources of supply of the additional commodities imported by western Europe — among which mineral fuels and lubricants were of outstanding importance — was the United States. While the total imports of the O.E.E.C. countries in 1956 were 36 per cent. above the 1953 level, their imports from the United States alone were 79 per cent. higher.



* Excluding trade between the eastern European countries, the U.S.S.R. and China.

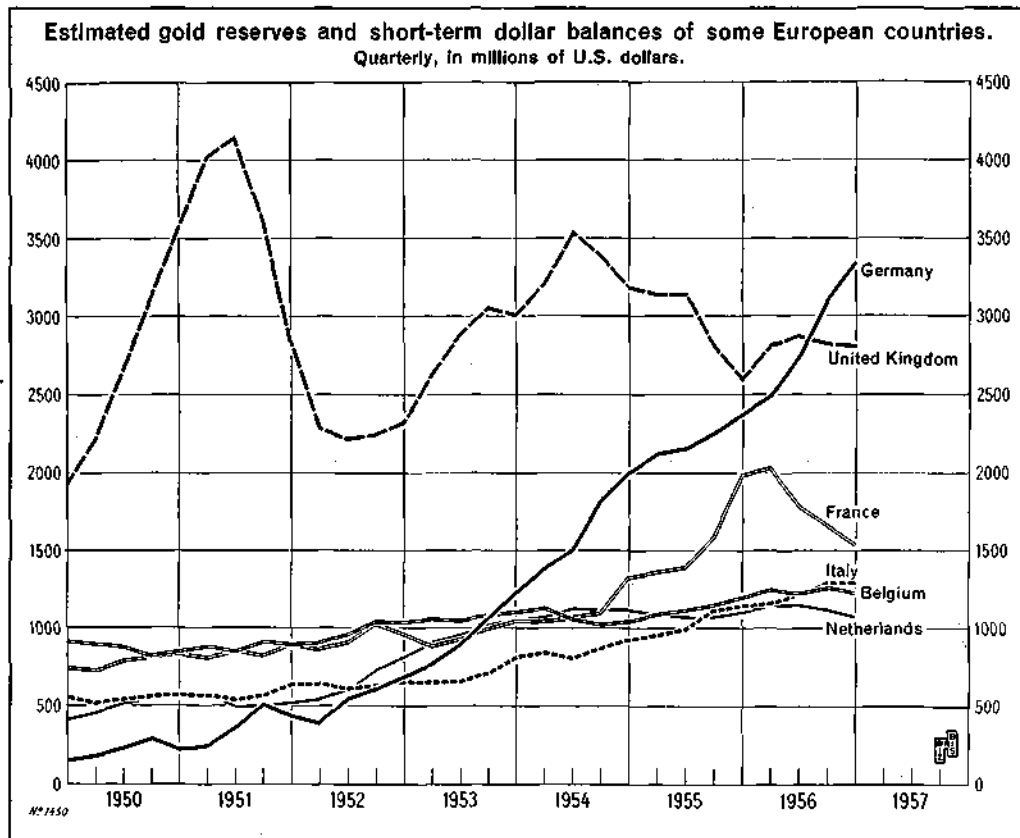
The industrialised countries also increased their imports from primary-producing countries in 1956, whereas countries exporting foodstuffs did not share to the same extent in the expansion of world trade.

Ratio of imports and exports to gross national product.

Countries	1938	1954	1955	1956
	In percentages			
Imports				
France	10.6	9.9	10.0	10.9
Germany	8.8*	13.3	14.9	15.5
Italy	7.5	12.9	13.1	14.3
Netherlands	24.7	41.6	43.0	47.3
Sweden	17.4	20.4	21.1	22.1
Switzerland	16.0	21.9	23.9	26.9
United Kingdom	16.0	18.8	20.4	19.0
United States	2.6	2.8	2.9	3.1
Exports				
France	7.1	9.8	10.3	8.9
Germany	10.0*	15.1	15.7	17.1
Italy	7.0	8.7	9.0	9.7
Netherlands	18.3	35.1	36.1	36.5
Sweden	15.4	18.2	18.3	19.4
Switzerland	13.2	20.7	21.0	22.0
United Kingdom	9.2	15.4	15.8	16.2
United States	3.7	3.6	3.7	4.2

* 1936.

The gold and short-term dollar holdings of western Europe showed a total increase of \$1,115 million in 1956, as against \$1,015 million in 1955. But whereas in 1955 many countries participated in this increase — the only big loser in that year having been the United Kingdom — in 1956 only four countries managed to add appreciably to their reserves, namely, Germany and, to a much smaller extent, Austria, Italy and Switzerland. The rise in the gold and dollar holdings of Germany was 85 per cent. of the total rise in the gold and dollar holdings of western Europe as a whole. France, on the other hand, lost heavily, and losses were also suffered by Spain and the Netherlands. The United Kingdom ended the year with approximately the same official reserves as at the end of 1955; but the level was maintained only with the aid of the \$561 million drawn from the International Monetary Fund. The variations in the reserves of the other countries were relatively small.



If account is taken of other reserves besides gold and dollar holdings — in particular of the holdings of claims in the E.P.U. — the increase in the net reserves of Germany during 1956 and the first quarter of 1957 works out at the equivalent of \$1.3 milliard, or 44 per cent. During the same period the reserves of France declined by over \$900 million, or by more than 45 per cent., and those of the Netherlands by \$227 million, or 18 per cent. Sweden,

whose gold and dollar holdings in 1956 rose by \$54 million, shows an increase in total reserves of only \$41 million. In short, the maldistribution of reserves is much more apparent if the total holdings are considered than if attention is concentrated on gold and dollars alone.

This maldistribution of reserves is seen in better perspective if the reserves are related to imports. In the case of Germany the total reserves were equivalent at the end of 1956 to the value of seven and a half months' imports, as against six months' at the end of 1955. The figure for France dropped from five to two and a half months and that for the Netherlands from four and a half to three and a half months. In the case of the other countries under consideration the changes were slight.

One fact thus stands out above all: the distribution of foreign exchange reserves became distinctly more uneven in 1956 than it had been at the end of 1955. It has already been observed that the principal cause of this development lay in the unequal degree of inflationary pressure in the various countries. This was largely responsible both for the shifts in the balances of payments on current account and for the speculative movements into and out of currencies on capital account — although political events such as the Suez crisis and the military developments in French North Africa contributed to the former, and the crisis in the Middle East also influenced the latter. One of the most difficult tasks to be faced in 1957 will undoubtedly be that of removing the causes of this disequilibrium in the international accounts.

For the deficit countries the cure cannot simply consist in putting new obstacles — quantitative controls or higher duties — in the way of imports. These can at best be a temporary expedient, since they tend in the course of time to reduce exports also. More radical action is required, and it must consist mainly in putting an end to inflationary financing and thus cutting down total domestic expenditure and preferably — if the growth and the competitive position of the economy concerned are not to suffer in the longer run — reducing expenditure on consumption, both private and public, proportionately more than that on investment.

Putting the squeeze on consumption expenditure is, however, especially difficult if wages are being pushed up too rapidly. This constitutes one of the most serious and intractable economic problems of our time. The monetary authorities have no direct influence on wage negotiations. And they can exercise an indirect influence, through the withholding of the additional funds necessary to finance the higher wage bills, only at the risk of provoking strikes — with a corresponding setback to the economy — if their action induces employers to refuse wage increases, or of creating unemployment if it does not. The power of the monetary and fiscal authorities to check inflation and balance their countries' foreign accounts is in practice limited unless they have the co-operation of labour and management.

Present-day institutional and political conditions make it more difficult than ever before, in some countries, to preserve the purchasing power of money and maintain approximately balanced international accounts. If the inflationary pressure had its source only in the tendency of investment to outrun savings, monetary and budgetary policies could cope with it. But when it is partly due to cost inflation caused by too rapid a rise in wage rates the authorities may have to choose between sacrificing the stability of the value of money and risking a certain amount of unemployment. This dilemma is not only one of the main factors making for chronic inflation in the world, but, as institutional arrangements and trade union policy vary from country to country, it also makes for different rates of inflation as between countries and therefore helps to bring about disequilibria in international accounts. The dilemma can be resolved only if wage increases in each individual country are kept within the limits set by the rise in average productivity in the country's economy as a whole — a rough rule which undoubtedly requires some modification if changes in the prices of imported raw materials tend to offset or to aggravate the effect of rising wages on the cost of production.

The same problem may be seen from another angle. It is sometimes suggested, mistakenly, that the maintenance of equilibrium in international accounts requires that productivity should increase at the same rate in all countries; what it does require is that wages should rise in line with productivity. If this condition is fulfilled, and if monetary and budgetary policies ensure that whatever public or private investment is undertaken is financed out of genuine savings, the double goal of maintaining approximate equilibrium in the balance of payments and of keeping the value of money stable is not — even when the tempo of economic growth varies from one country to another — beyond reach. It should be no cause for alarm, then, if there is little prospect that the economies of the western world will ever move closely in step as regards the rate of increase in productivity.

This does not mean that it is immaterial to one country what rate of economic growth is achieved by others. Rapid economic expansion in the more highly industrialised and richer countries is, for example, essential if the hopes of the poorer countries of being able to obtain capital for their own development are to be fulfilled. As the rate of economic growth depends predominantly on the rate of investment, the long-term aim — if rapid growth is to be achieved — must be to keep the ratio of savings to the national product high. It follows that measures of monetary policy need to be supplemented by fiscal measures calculated to increase the flow of savings with the object of enabling a high level of investment to be maintained without its creating persistent or periodic inflationary pressure. This long-term aim should not be lost sight of, even though the more pressing task is that of controlling inflation and balancing external payments.

II. Economic Expansion and the Formation of Savings.

While production moved to still higher levels in western Europe during 1956, the increases were unevenly distributed among the different branches of activity, primary production having lagged behind the development of manufacturing and other classes of industry. This imbalance was reflected in the large rise in imports, mainly of foodstuffs and fuel; the total volume of imports into western Europe from other areas increased from 1955 to 1956 by over 8 per cent., i.e. more than twice as fast as the combined gross national product of the same group of countries (which grew by 3.6 per cent.).

Preliminary estimates of agricultural production show that it was, at best, maintained at the level of the previous crop year. As regards cereal production, a large decline in the output of bread grains (from 45 to 40 million tons for the O.E.E.C. group of countries) was offset by a roughly equal expansion in that of coarse grains. Total meat production was also unchanged.

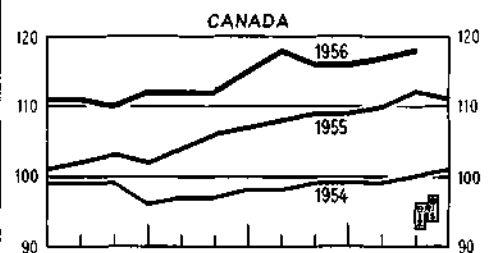
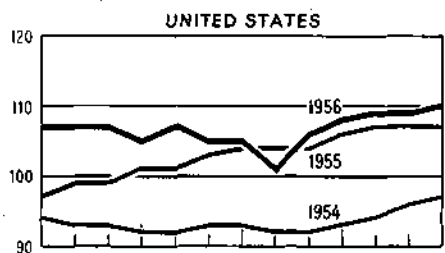
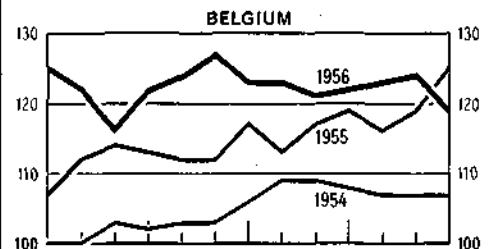
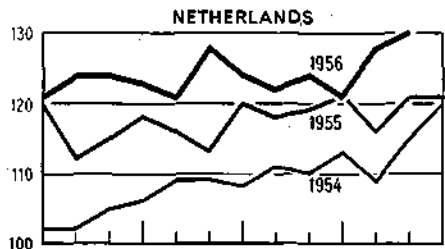
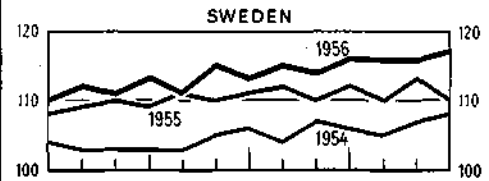
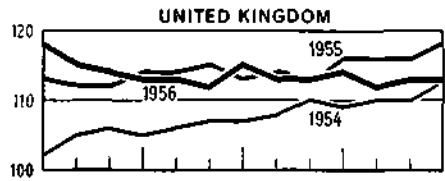
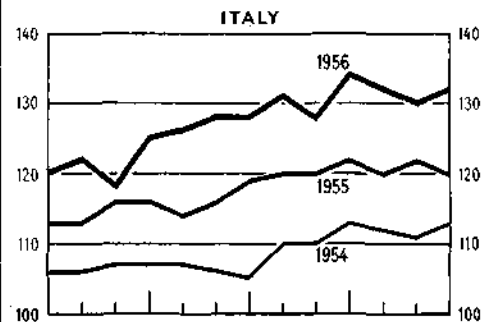
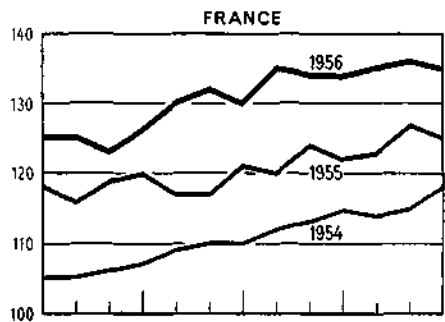
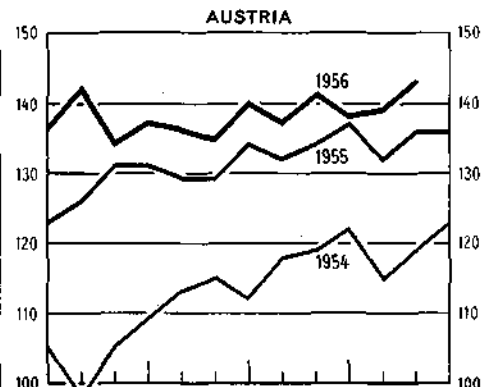
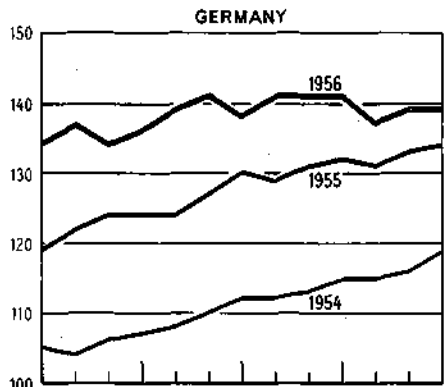
Whereas in the agricultural sector the year's disappointing results do not reflect long-term trends, the more pressing problems being connected rather with the pattern of production than with its overall growth, the slower expansion of mining output does represent part of a long-term movement. In the O.E.E.C. group of countries mining output increased by 24 per cent. over the six years 1950-56, while manufacturing production expanded by 47 per cent. Actually, during 1956 the development of mining activity was less out of line with that of manufacturing than in previous years, owing to the slight recession in manufacturing industry in the United Kingdom and the rapid increase in mining in some of the less important producing countries (e.g. Sweden, Norway and Italy).

On the other hand, the expansion in electricity output again exceeded that in manufacturing production — a state of affairs which is also in line with long-term trends. The rise in electricity output was 9 per cent. in 1956 and 63 per cent. over the six-year period 1950-56.

The indexes of industrial production shown in the graph on the next page are adjusted for seasonal changes and include — in addition to manufacturing — mining and electricity, but not building. Their fluctuations mainly reflect, however, those in manufacturing activity, since, in the O.E.E.C. group, the latter accounts for 85 per cent. of the industrial activity covered by the above-mentioned indexes.

In Europe the shifts in manufacturing production — both that from consumer to investment goods and that from non-durables to durables — which had been noticeable in recent years, ceased in 1956.

Industrial production.
Indexes (seasonally adjusted): 1953 = 100.



The following table shows, for several continental countries, the changes in production during 1955 and 1956, giving separate figures for investment goods and consumer goods. No equally satisfactory break-down exists for the United Kingdom and the United States: in their case, the table shows the changes in certain classes of industry which are indicative of the trends in the two groups.

The recovery in the production of consumer goods during 1956 was especially marked in France and Italy; in both countries, and also in Germany, the rate of expansion of consumer industries in 1956 was closely in line with that of industries producing investment goods. In Norway and Sweden investment goods were still in the lead, while in Denmark, on the other hand, production in this sector actually declined.

Production of investment and consumer goods.

Countries and goods	1955	1956
	percentage increase over previous year	
France		
Equipment goods*	12.7	9.7
Consumer goods	3.9	9.0
Germany		
Basic materials and producer goods	15.7	7.1
Investment goods	23.1	8.8
Consumer goods, excluding food	11.2	8.3
Food products	9.8	7.3
Italy		
Investment goods	15.5	6.3
Consumer goods	- 2.2	6.6
Denmark		
Investment goods	2.2	- 3.6
Consumer goods	0.9	0.0
Norway		
Investment goods	10.4	5.0
Consumer goods	5.3	3.6
Sweden		
Investment goods	9.7	4.4
Consumer goods	2.7	0.5
United Kingdom		
Ferrous-metal products	7.2	3.0
Non-ferrous-metal products	12.0	- 5.3
Engineering, shipbuilding and electrical goods	10.7	- 2.6
Textiles and clothing	0.0	0.9
Food, beverages and tobacco	0.9	3.4
Vehicles	11.0	- 7.0
United States		
Primary metals	29.6	- 1.4
Fabricated metal products	8.9	0.7
Machinery	9.2	9.7
Textiles and clothing	9.0	- 0.9
Food, beverages and tobacco	2.8	2.8
Motor vehicles	45.0	-27.4

* Includes houses.

In the United Kingdom and the United States the picture is less clear, since the trend of metal manufacturing, which normally might be assumed to give a fairly good indication of the development of investment-goods production, was in 1956 influenced to a great extent by the marketing difficulties experienced by the producers of motor-cars and domestic appliances. In the United Kingdom, however, there was apparently a speeding-up in the production of non-durable consumer goods, while in the United States textile production fell off somewhat. Developments in the durable-goods industries were similar in the two countries. American production of motor-cars fell by over one-quarter; in the United Kingdom there was a decline of 21 per cent. in the production both of passenger cars and of radio and television sets and one of 4 per cent. in that of domestic furniture, while the output of electrical appliances also fell substantially.

Although building activity in western Europe continued at a high level owing to the large volume of work in progress at the end of 1955, the number of starts in 1956 was generally smaller than it had been the previous year, and in some countries it fell below that of completions. This was particularly the case in the housing sector, which was affected not only by credit stringency and a decline in demand but also by limitations in the supply of manpower and building materials. In the United States the number of housing starts, which had already fallen in 1955, continued to decline.

Various factors helped activity in the field of services to increase more rapidly than production as a whole. The volume of transportation activity was influenced by the growth of foreign trade (which increased faster, both in Europe and the United States, than did domestic output) and by an increase in the average length of sea transport, due to the marked rise in exports from North America to Europe and, during the second part of the year, to the re-routing of traffic which previously used the Suez Canal.

Employment in the distributive trades rose appreciably in some countries owing to the decline in the demand for workers on the part of manufacturing industry. In certain other countries the salaries of government employees, which had lagged behind the general rise in earnings from labour during the wartime and post-war inflation, were substantially increased. These factors may have caused the statistics to give an exaggerated impression of the increase in 1956 in the volume of services rendered to the community by the distributive trades and by government institutions.

* * *

When production is considered as a whole, there appears to have been in 1956 some tapering-off of the rapid expansion which had been taking place in western Europe during the three preceding years. The change in the economic climate did not, however, become marked until the second half of the year. For this reason a comparison of economic indicators calculated as annual averages gives an impression of the pace of economic advance which a closer inspection of movements during the year in some

cases fails to bear out. Thus, while the growth that was taking place in 1955 is reflected in the fact that the levels of activity recorded at the end of the year were generally higher than was indicated by the annual average figures for output, in 1956 the end-of-year levels of production were more or less in line with the annual averages and in a few countries those in certain branches (notably house-building) were actually below them. The combined index of industrial production for the O.E.E.C. countries rose from 120 in 1955 (1953 = 100) to 125 in 1956. But whereas in January 1956 it stood eight points above the figure for January 1955, in December 1956 it was only one point above the level of December 1955 (126 as against 125). In the early months of 1957, however, the upward movement appears to have been resumed as production accelerated in certain countries — namely Germany, Italy and Denmark.

According to O.E.E.C. estimates, the combined national product of the member countries rose from 1955 to 1956 by 3.6 per cent. in real terms and 7.5 per cent. in monetary terms. In 1955 the increase had been 6.0 and 8.9 per cent. respectively. These figures indicate that, in addition to the slowing-down of the expansion, the gap between real and monetary increases, which was already large in 1955, widened further in 1956. The gap was widest in the countries where the real increase in production was smallest. More than half the growth in incomes in western Europe had no counterpart in an increase in the actual volume of goods produced.

O.E.E.C. countries: Increases in monetary demand and real output.

Items	Increases over the preceding year					
	1954	1955	1956*	1954	1955	1956*
	in milliards of U.S. dollars			in percentages		
Aggregate monetary demand . . .	11.2	17.8	17.3	6.0	8.9	7.5
Real output	9.4	12.2	7.9	5.0	6.0	3.6
Difference between monetary demand and real output	1.8	5.6	9.4	.	.	.
Offset by						
Changes in net imports at current prices	- 0.7	0.3	0.4	.	.	.
Average price increase	2.5	5.3	9.0	1.3	2.5	4.0

* Provisional figures.

The net national product of the Soviet Union is estimated by the Economic Commission for Europe to have risen in real terms by 12 per cent. in 1956, as against an average of 11 per cent. in the previous five years; an increase of 8 per cent. is planned for the current year. The rates of growth in the other eastern European countries would not seem to have exceeded to any significant extent that achieved in western Europe; in 1956, while the pace of industrial development was sustained (except in Hungary), harvests were disappointing.

The table on the following page shows the development and allocation of resources during recent years in the O.E.E.C. countries as a group.

National product and expenditure of O.E.E.C. countries combined,
at constant prices.

Items	1950	1955	1956	Percentage increase in 1956		1950	1955	1956
	in milliards of U.S. dollars at 1954 prices and official exchange rates			over 1950	over 1955	as percentages of gross national product		
Defence expenditure	8.6	11.0	11.4	32.6	3.6	5.1	5.1	5.1
Public civil expenditure . . .	15.8	19.2	19.8	25.3	3.1	9.4	9.0	9.0
Public consumption	24.4	30.2	31.3	28.3	3.6	14.5	14.1	14.1
Private consumption	114.0	139.6	145.1	27.3	3.9	67.5	65.3	65.5
Total consumption	138.5	169.7	176.4	27.4	3.9	82.0	79.4	79.6
Gross domestic fixed-capital formation	28.2	39.5	41.8	48.0	4.7	16.7	18.4	18.9
Increase in stocks	2.0	3.2	2.9			1.2	1.5	1.3
Total national expenditure	166.7	212.4	221.1	31.1	4.1	99.9	99.3	99.8
Exports of goods and services to rest of world	17.3	25.5	0.5			10.2	11.9	0.2
Less: imports of goods and services from rest of world	-17.0	-24.0				-10.1	-11.2	
Gross national product	168.9	213.9	221.5	31.1	3.6	100.0	100.0	100.0

Note: Items may not add up to totals owing to rounding.

In the six years 1950-56, the combined national product of the O.E.E.C. countries increased, in real terms, by 31 per cent. National expenditure rose in line with the national product, the foreign account having been roughly balanced both in 1950 and 1956. The distribution of expenditure showed a marked shift from consumption, which increased by 27 per cent., to investment, which expanded by 48 per cent. The growth in public consumption slightly exceeded that in private consumption owing to defence expenditure, which rose by 33 per cent. The increase in the combined national product of the O.E.E.C. countries over the six years compares favourably with that achieved in the United States (25 per cent.).

When the changes which took place from 1955 to 1956 are considered separately, it appears that the main trends in the allocation of resources which the above figures suggest were continued during 1956. The range of variation in the rates of change, however, became narrower, investment having increased by 4.7 per cent. (with a shift from stocks to fixed assets, investment in which rose by 5.8 per cent.) and consumption by 3.9 per cent. Moreover, owing to the smallness of the increase in public civil expenditure (3.1 per cent.), public consumption expanded less than private consumption. As subsequent reference to the budgetary position of a few important countries will show, it is possible that in recent years the increase in transfer payments (such as subsidies, pensions, war-damage compensation, interest payments, etc.) has had a greater expansive effect on total consumption than the rise in public consumption.

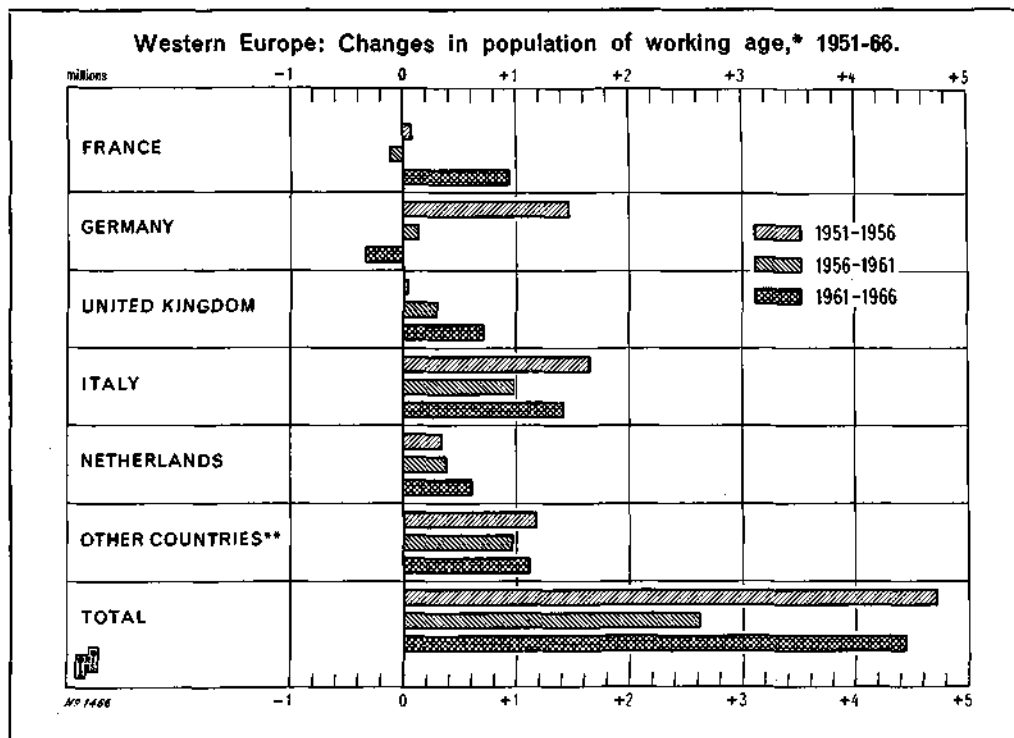
The aggregates for the O.E.E.C. countries combined conceal a variety of different developments in the individual economies. The extent to which the national product had risen by 1950 compared with the 1938 level was greatest in the case of the Scandinavian countries, while Germany and Italy lagged behind owing to heavy war damage and the delays involved in setting about post-war reconstruction. From 1950 to 1956 the position was reversed, the rate of expansion having been most rapid in Germany and Italy and slowest in Scandinavia. The United Kingdom, which had built up its productive capacity during the war years, also lost ground in relation to other countries in the years from the end of the war up to 1952. France made good progress during the Marshall Plan years; in the years 1952-53 it experienced a decline in investment activity and an increase in military expenditure; since 1953 its rate of expansion has been among the highest in Europe. The rates of increase of production in the above-mentioned countries bore a fairly close relationship to the respective rates of investment.

These various developments, seen against the background of the domestic policies and other economic factors by which they were conditioned, suggest certain conclusions. The important part played by American grants-in-aid and capital exports in speeding up European recovery is obvious enough. These funds helped some countries to carry out programmes necessary for the modernisation and equipment of basic industries after almost two decades of neglect and growing obsolescence of existing plant. In the case of other countries, rich in manpower resources, such assistance removed the obstacle of an insufficient volume of imports of raw materials and foodstuffs, which in the past they had vainly attempted to overcome by policies of autarky.

Restrictive monetary policies appear to have exerted their usual retarding effect on the growth of demand when first introduced (as is shown by what happened in Italy in 1947, in Germany in 1948 and in France in 1952) but to have promoted economic development in the longer run. At the same time, a negative proof of their efficacy seems to have been provided by the experience of other countries in which, despite the maintenance of easy-money policies for lengthy periods, it was not found possible to prevent the expansion of production from falling somewhat behind the average rate of advance in western Europe.

An influence of a more general character is that exercised by population trends. This factor has become increasingly prominent in recent years from two points of view. In the first place, economists analysing tendencies towards economic stagnation (mainly resulting from a lack of mobility of resources and an unwillingness on the part of entrepreneurs to plan for expanding markets) have tended more and more to attribute them to the influence of a stationary and ageing population. Secondly, the emergence of actual labour scarcities in recent years has had a limiting effect on economic development. The young people who are reaching working age now

and who will reach it during the next few years are those born in the war years, when the birth-rate was lower in most countries than either before or after the war. Consequently, the increase in the population of working age is going to be abnormally small for a few years; the average age of the labour force will increase and the adaptation of employment patterns to demand will become more difficult, since it is through the young workers that this process mainly takes place. Europe will therefore continue to be confronted with problems connected with the supply and the mobility of manpower until after 1960, when the labour force will begin to increase more rapidly as a result of the high birth-rate of the early post-war years. The working population of France, and to a smaller extent that of the United Kingdom, will then expand for some years, while that of Germany will decrease somewhat (except for the possible influence of migration, which is not taken into account in the estimates incorporated in the diagram).



Note: The diagram is based on figures for the individual countries taken from the O.E.E.C. publication: Demographic trends in western Europe, 1951-1971.

Western Europe is thus entering upon a period of several years during which it will not be able to count, for its economic progress, on the availability of unutilised productive capacities and manpower resources or on the expansion of the population of working age, while at the same time the tendency towards the shortening of working hours and the fixing of earlier age-limits for retirement may continue to exert a very strong influence in the

opposite direction (as is shown by what happened in 1956). Good husbandry of resources is consequently coming to be the most important condition of economic advance.

Leaving aside the part which can be played by monetary policy (which will be discussed in the following chapter), there remain two other dominant influences capable of promoting economic development through an efficient use of resources, namely, a rational price system and the government's financial policy.

In many countries rents still represent the section of the price system which is most out of line with general price developments. In addition, attention has also been focused recently on the prices for agricultural produce and the public-utility services. Rent control discourages landlords from keeping property in good repair and tends to lead to a wasteful use of accommodation, as tenants stay on in dwellings too big for their needs. Owing to the pegging of rents during the war years, they fell out of line with other prices. Even in countries in which the wartime increase in prices was relatively limited, as in the United Kingdom and the United States, the rise in the index for rents up to 1948 was only about one-quarter as large as that in the general cost-of-living index, while in countries where there was open inflation during the war, such as France and Italy, the disparity was much greater. However, the very extent of the distortion in these latter countries has prompted them to take corrective measures. In several instances, on the other hand, the disparity has been further widened by a policy of permitting only limited rent increases, whereas other prices have continued to move upwards. This is notably the case in the United Kingdom, where, however, legislation is now under consideration providing for the progressive abolition of rent restrictions and for increases in the rents of houses remaining temporarily under control. Detailed statistical data and other information concerning the trend of rents in individual countries are given in Chapter IV.

In agriculture the adaptation of production to consumption trends has been slow, so that, with the shifts in the pattern of demand following the improvement in general standards of living, surpluses develop in the case of products the consumption of which changes little as incomes rise (such as cereals), while the supply of other products (such as meat and vegetables), upon which demand is increasingly concentrated, becomes inadequate. Government action has not, on the whole, been so conceived as to promote a shift of resources in accordance with the development of demand. It has been mainly concerned with taking care of the surpluses — by limiting imports, financing the accumulation of stocks, or subsidising exports or marginal uses of the products, etc.

As far as the public utilities are concerned, various controls have been effectively applied, one notable result having been that the rates charged have lagged behind the general price increase. A similar position exists in nationalised coal-mining. This leads to waste of sources of energy and creates difficulties

in the financing of expansion. The problem is especially serious in the case of sources of energy, as is borne out by the recent O.E.E.C. study of economic developments up to 1960, which gives data showing Europe's increasing dependence on imports.

* * *

It seems appropriate at this point to trace through the national accounts of a few western European countries the relationship which has existed in recent years between the allocation of resources and the foreign payments position and to stress the rôle of government finance, which has already been mentioned as one of the potentially dominant influences in the promotion of economic development during the next few years. The selection of countries has been made with regard to their relative importance and to the special nature of the balance-of-payments problems with which they were faced during 1956.

While in the early post-war years the balance-of-payments position had been prominent among the factors limiting the rate of economic growth in various European countries, the payments problem receded into the background somewhat between 1953 and 1955, except in a few countries whose foreign exchange reserves were still low. The gradual achievement of better internal balance, or (as in the case of the United Kingdom in 1955) the possibility of drawing on foreign exchange reserves already built up, created the conditions for a period of buoyant growth.

In 1956, however, the western European payments problem again became acute, but in a new form. Whereas in the early post-war years the chief difficulty had been, broadly speaking, one of dollar scarcity in the area as a whole, in 1956 each of the three principal countries — the United Kingdom, Germany and France — was faced with a payments problem of a more individual nature. In analysing these developments it may first of all be observed that a measure of a country's total national saving is given by its domestic investment plus the surplus (or minus the deficit) in its current balance of payments.* In this connection, an external deficit can be taken as indicating a tendency on the part of a country to invest at home more than it saves, while a foreign surplus indicates the opposite. An external imbalance, when examined in the light of the national accounts, may in fact be traced back to the savings and investment position of the various economic sectors which together determine the aggregate savings and investment position of the economy as a whole. An analysis of the national accounts may therefore provide a useful guide for the assessment of the factors underlying the extremely diverse balance-of-payments developments which took place in 1956 — a question which deserves special attention both because it returned to the forefront during the

* The sum of these two items is also described as a country's gross national investment, which is thus equal to its gross national saving. The balance on external account is termed net foreign investment, this being understood to include not only the export or import of capital but also changes in the country's gold and foreign exchange holdings.

year under review and because it is of immediate interest to central banks. Such an analysis may also help to give some clue, from a longer-term point of view, to the reasons for the differences in the rate of economic growth in the various European countries.

In examining behaviour patterns of saving and investment, the most important distinction to be made is that between the public authorities and the private sector. In addition, further useful subdivisions may be made by distinguishing, in the public-authority sector, between central and local government, and, in the private sector, between business firms and households. In so far as they are included under business, government-owned corporations should be treated separately from private enterprises.

It is useful, when studying inter-sector relationships, to start with the savings position of each sector. In any given year, the total increase in a sector's own investible funds (i.e. excluding funds borrowed from outside) is represented mainly by its current savings, to which should also be added certain net capital "transfer" receipts such as war-damage payments received from the government. This increase in assets is employed wholly or in part for purposes of direct investment by the sector concerned, any amount remaining representing a "financial" surplus available for lending to other sectors. The financial surplus (i.e. the net acquisition of financial assets) may in turn be divided into two parts: the first consists of any increase in holdings of long-term claims such as bonds or shares, while the second, which may be said to constitute the sector's liquidity surplus, consists of the rise in short-term claims (including monetary assets). Finally, by isolating within the rise in short-term claims such items as form part of the money supply, a chain of relationships is obtained through which changes in the money supply may be linked up with the income position of the individual sectors. Analysis along these lines has been developed in some detail in, for example, the Netherlands.

Among the principal countries, the sub-division of national accounts by sectors has been carried furthest in the United Kingdom. The following table gives the distribution of net national saving between five groups (namely persons, companies, public corporations, the central government and the local authorities) and its allocation between net domestic fixed-capital formation, investment in stocks and net investment abroad.*

* The statistical data used in the analysis of saving/investment relationships in the remaining part of this chapter were derived mainly from the national income accounts of the countries concerned and therefore relate, except where otherwise stated, to calendar years. In the government sector, in particular, one must be careful to distinguish between the data from the national accounts, which best convey the economic significance of the sector's various transactions, and the normal financial budgets of the public authorities in question, to which some reference will also be made. The data employed were drawn principally from the following sources: United Kingdom: National Income and Expenditure (Blue Book, 1956); Economic Survey, 1957 (Cmd 113); Preliminary Estimates of National Income and Expenditure, 1951-56 (Cmd 123). France: Rapport sur les Comptes de la Nation, 1949-55 and 1956. Germany: Bank deutscher Länder, Report for the year 1956 and monthly reports (especially those for July 1956 and January 1957). The Netherlands: De Nederlandsche Bank, Report for the year 1956; Central Plan Bureau, Central Economic Plan.

United Kingdom: Net national saving and investment.

Items	1950	1951	1952	1953	1954	1955	1956
	as percentages of net national product at market prices						
Net national investment							
Net domestic fixed-capital formation	5.6	5.4	5.6	6.4	6.8	7.3	7.2
Physical increase in stocks	- 1.7	4.3	0.3	0.8	0.4	1.7	1.1
Net investment abroad	3.6	- 2.7	1.7	1.2	1.4	- 0.4	1.2
Total	7.5	7.0	7.6	8.4	8.6	8.6	9.5
Net national saving							
Persons	- 1.4	- 1.3	2.6	3.3	2.3	3.4	5.6
Companies	3.8	2.7	3.5	4.3	4.7	4.8	4.2
Public corporations	- 0.8	- 1.2	- 0.8	- 0.7	- 0.4	- 0.8	- 1.0
Central government *	3.5	2.6	1.6	0.5	0.3	1.5	0.7
Local authorities	- 0.2	- 0.3	- 0.4	- 0.2	- 0.2	- 0.3	- 0.2
Additions to dividend, interest and tax reserves	1.4	3.8	0.1	0.1	1.3	0.3	0.9
Total net national saving	6.2	6.3	6.5	7.3	8.0	9.0	10.2
Net capital transfers from abroad	1.4	0.6	0.2	0.2	0.1	0.1	0.1
Discrepancy	- 0.1	0.2	0.9	0.9	0.5	- 0.5	- 0.7
Total	7.5	7.0	7.6	8.4	8.6	8.6	9.5

* Central-government surplus on revenue account 3.7 3.2 1.9 0.7 0.8 1.9 1.0

Note: Saving is defined as in the British national accounts, which include capital transfers in the saving of the sector making them. Accordingly, in the case of the government, saving is equal to (a) the surplus on revenue account (net of depreciation) less (b) taxation on capital plus (c) transfers to capital accounts (mainly war-damage compensation). E.R.P. and other capital transfers from abroad are not entered in the revenue accounts of the domestic sectors but are instead shown in the table as a separate item. The percentages in the footnote above are based on the figures for (a).

In deriving net from gross figures use was made of the official estimates of "capital consumption". The central-government sector includes national insurance funds.

It will be observed in the table above that throughout the period covered investment in stocks constituted a highly volatile element in capital formation and was offset to some extent by contrary movements in the external balance (see also page 55). Net fixed domestic investment, which had been on rather a small scale during the early post-war years, underwent little change during the Korea boom of 1950-51 but has increased notably since the mild recession of 1952.

The second part of the table shows that during the two years 1950-51 capital formation was financed mainly by company saving and the central government's budget surplus, while there was dissaving in the personal, public-corporation and local-authority sectors. The excessive liquidity left over from the war and early post-war years, together with the working-off of backlogs of consumer demand (a process which was accelerated during the years 1950-51), go some way towards explaining the savings trend in the personal sector, which in recent years has made an increasing contribution to capital formation. On the other hand, dissaving has continued up to the present in the public-corporation and local-authority sectors. The outstanding feature in the changing pattern of saving was the shift from government to personal and company saving between 1952 and 1954.

The increase in personal saving from 1952 onwards was in part a natural reaction to the spending spree of 1950-51 and an adaptation to tighter liquidity conditions. In addition, it reflected the influence of government policy measures, which included higher interest rates, incentives to small savers, greater freedom for private house-building and reduced taxation. Similarly, the rise in company saving may be partly attributed, on the one hand, to changes in market conditions (e.g. the spurt in demand and productivity following the 1952 recession and the difficulty of obtaining a sufficient volume of funds from the capital market) and, on the other, to government policy measures, including tax reductions, special investment allowances, a tax differential in favour of undistributed profits and the denationalisation of the steel industry and road transport. That the burden of both personal and company taxation was significantly lightened during the period under discussion by changes in taxation can be clearly seen from the fact that central-government taxation (exclusive of national insurance contributions) decreased from 31.9 per cent. of the gross national product (at factor cost) in 1950 to 26.5 per cent. in 1956.

There does not seem to be any very great hope of a further large expansion in personal and company saving in relation to the gross national product. Looking at the table below and allowing for the distorting effect of the events of 1950-51 on the annual trend of saving, it would appear that the underlying trend of personal saving in the United Kingdom was steadily upward between 1950 and 1953, but that the rise halted in 1954 and 1955 at a level below that of the United States, Germany and France.

Net personal saving.

Year	United Kingdom	France	Germany	United States
	as a percentage of personal disposable income			
1950	— 1.8	8.7	3.7	5.9
1951	— 1.7	6.3	4.0	7.8
1952	3.3	7.0	6.0	8.0
1953	4.2	6.1	7.1	7.9
1954	3.1	7.0	7.8	7.0
1955	4.3	7.9	6.8	6.1
1956	7.0	7.4	6.4	7.3

Note: Owing to differences between countries as regards the items included in personal saving, the above estimates should be regarded with caution when making international comparisons. In the case of Germany, in particular, the figure does not include: (1) the undistributed profits of non-corporate business, which are considered as forming part of the saving of business enterprises, and (2) funds contributed directly (i.e. not via building and loan associations) by private households to house construction.

In 1956, it is true, personal saving in the United Kingdom rose to a level approximately the same as that in the other three countries, increasing to 7.0 per cent. of disposable income, compared with 4.3 per cent. in 1955. This increase was doubtless due partly to the special measures designed to stimulate personal saving which were introduced by the government in its 1956-57 budget, but it also appears to have been in some measure temporary, reflecting the tightening of restrictions on consumer credit and the effects of the Suez crisis in discouraging the purchase of motor-cars in late 1956.

The needs for which personal saving is intended to provide — namely old age, the purchase of a house, and various contingencies — are related to current standards of living or acquired habits, and hence to present or past income. In many countries the state has increasingly assumed responsibility for meeting these needs. Thus the need to set aside money for the future and for tiding over periods of reduced income has been made less urgent, for wage and salary-earners, by far-reaching policies of full employment and social security. Public housing programmes and rent control have diminished the incentive to buy a home of one's own. In agriculture, price-stabilisation policies and technical progress have reduced the need to build up reserves for use in the event of sudden drops in income. For the holders of individually-owned enterprises, incentives to save remain relatively unimpaired, but the contribution of this group to total personal saving is being affected by a structural shift from self-employment to salaried status. Finally, a highly progressive tax structure has tended greatly to reduce the inequality of income distribution compared with pre-war years. On balance, these various tendencies seem to have progressed further in the United Kingdom (and also in the Scandinavian countries) than in most other countries, and this may help to account for its apparently lower propensity to save. Therefore, while there is undoubtedly some scope for the stimulation of private and business saving by means of changes in fiscal policies, an increase in capital formation would seem to depend more on the potential contribution of the three remaining sectors — in particular the central government and the public corporations — the saving of which has in recent years been small or negative.

For such an increase in saving to be achieved without inducing off-setting movements in the private sector, it must come about mainly, in the case of the government, through restraint in expenditure. The development of the major components of central-government outlay is shown in the table below, from which it will be seen that military defence expenditure rose substantially in relation to the gross national product between 1950 and 1953 but has since fallen off. A further significant decline is now in prospect, for it was announced on 4th April 1957 that in the financial year 1957-58 net defence expenditure was to be reduced to £1,420 million; this represents a cut of some £100 million compared with actual expenditure during 1956-57 and of over £200 million compared with earlier plans for expenditure in 1957-58. There would also appear to be scope for retrenchment in civil expenditure, although the outlook from this point of view is not promising at present. More than one-half of current expenditure on goods and services other than for defence is accounted for by the health service. As regards transfer payments, total outlay does not, it is true, seem to have increased in recent years in relation to the gross national product, as it has done in certain other countries, but this is partly due to the already high level of these payments at the outset. On balance, therefore, central-government expenditure remains, by international standards, very high as regards both current outlay on goods and services and transfer payments.

United Kingdom: Current expenditure of the central government.

Items	1950	1953	1956	1950	1953	1956
	in millions of £ sterling			as percentages of net national product		
Current expenditure on goods and services						
Military defence	820	1,540	1,634	6.7	9.9	8.7
Health service	414	450	550	3.4	2.9	3.0
Other	274	330	379	2.2	2.1	2.0
Total	1,508	2,320	2,563	12.3	14.9	13.7
Transfer payments						
Subsidies	451	345	340	3.8	2.2	1.8
National insurance benefits	388	527	671	3.2	3.4	3.6
Other current grants to individuals	327	424	444	2.7	2.7	2.4
Interest on debt	507	639	726	4.1	4.1	3.9
Current grants to local authorities	296	398	524	2.4	2.6	2.8
Current grants paid abroad	45	58	63	0.4	0.4	0.3
Transfers to capital accounts	160	126	104	1.3	0.8	0.5
Total	2,184	2,517	2,872	17.9	16.2	15.3
Grand total	3,692	4,837	5,435	30.2	31.1	29.0

For this reason it may be possible by means of further economies — in the form of absolute reductions and of restraints on the growth of expenditure — to achieve a larger surplus, particularly if economic expansion is maintained. From this point of view, present prospects are already relatively favourable, since — according to the budget estimates for 1957-58 — the central government's "above-the-line" surplus (after making allowances for various tax reductions which may themselves help to increase personal savings) is expected to increase from £290 million in 1956-57 to £462 million in 1957-58.

In the public-corporation sector, the figures up to 1956 provide no evidence of any definite trend towards a more balanced income position. However, recently published estimates of the nationalised industries' capital expenditure and its financing in the ten years from 1956 to 1965 foreshadow a substantial growth in the volume of self-financing, mainly in the case of the National Coal Board. It is difficult to see the rationale of the economy's present pattern of prices, which permits a large measure of self-financing in the case of private companies but does not even provide adequately for depreciation in the case of most public corporations. The lag in the rise since 1938 in prices of goods and services provided by public corporations compared with that in other prices has been somewhat reduced in recent years.

The financial surplus of a sector represents, as previously explained, the difference between the sector's current saving (including capital transfers) and its actual investment. The sectoral trends of the relevant items in the United Kingdom between 1950 and 1956 are shown in the following table, which also includes temporary borrowing from reserves in the total of internal financial resources.

United Kingdom: Saving, investment and changes in financial assets, by sectors.

Sectors	Years or annual averages	Investible funds				Uses of investible funds	
		Gross saving ¹	Funds from reserves ²	Less: depreciation	Net funds available	Net domestic capital formation	Financial surplus or deficit (—) ³
in millions of £ sterling							
Persons	1950-51	— 1	63	290	— 228	28	— 256
	1952-53	658	— 33	327	298	27	271
	1954	577	29	334	272	182	90
	1955	829	27	360	496	267	229
	1956	1,320	32	400	952	250	702
Companies	1950-51	810	260	350	720	480	240
	1952-53	1,066	20	434	652	228	424
	1954	1,301	206	494	1,013	490	523
	1955	1,431	52	570	913	770	143
	1956	1,439	100	625	914	656	258
Public corporations . . .	1950-51	80	18	210	— 112	108	— 220
	1952-53	172	28	281	— 81	180	— 281
	1954	224	— 14	292	— 82	187	— 269
	1955	188	— 25	310	— 147	256	— 403
	1956	163	33	345	— 149	244	— 393
Central government . . .	1950-51	685	—	121	564	— 38	603
	1952-53	381	—	150	231	131	100
	1954	303	—	157	146	— 88	234
	1955	520	—	165	355	— 81	436
	1956	424	—	190	234	11	223
Local authorities	1950-51	96	—	115	— 19	315	— 334
	1952-53	115	—	143	— 28	428	— 456
	1954	138	—	150	— 12	427	— 439
	1955	132	—	163	— 31	375	— 406
	1956	139	—	175	— 36	392	— 428
Total ⁴	1950-51	1,677	341	1,086	932	892	40 ⁵
	1952-53	2,531	15	1,335	1,211	994	217 ⁵
	1954	2,632	221	1,427	1,426	1,198	228 ⁵
	1955	3,022	54	1,568	1,508	1,587	— 79 ⁵
	1956	3,358	165	1,735	1,788	1,553	233 ⁵

¹ Including capital transfers. ² Temporary use of tax, dividend and interest reserves. ³ Net acquisitions of financial assets plus net foreign investment. ⁴ Including residual error. ⁵ Net foreign investment.
 Note: This table is based partly on B.I.S. estimates of the sector allocation of certain aggregates appearing in Preliminary Estimates of National Income and Expenditure, 1951-56 (Cmd 123).

In the years 1950-51 the personal sector had no funds available from its gross saving and therefore had to borrow from other sectors the whole amount necessary to provide for its capital consumption and a small amount of net investment. In 1952-53, when its saving began to assume sizable proportions, the sector's net investment remained small and a large financial surplus emerged. In 1954-55 total saving remained more or less unchanged but investment within the sector expanded, so that the financial surplus was reduced accordingly. The sector's financial surplus then jumped from about £230 million in 1955 to just over £700 million in 1956, owing to the fact that the already-mentioned spurt in personal saving did not lead to any increase in investment within the sector. Capital formation mainly took the form of

the purchase of dwellings and the acquisition of plant and machinery for business purposes by professional persons, farmers, other independent traders and partnerships.

Information concerning changes in the net financial claims of the personal sector is very incomplete, but certain structural features are worth noting. In 1955, for instance, the financial surplus of the sector amounted to £180 million (according to the 1956 Blue Book on the national income),* which may be divided into (i) a surplus of £488 million representing the net increase in the funds of life assurance companies, pension funds, and the like, and (ii) a net financial deficit in the personal sector of £308 million in respect of all other items. Of the large surplus accruing in the form of life assurance and pension funds, £211 million was invested in publicly-quoted private securities (holdings of public-authority securities were, on the other hand, reduced by £14 million), £76 million was used to extend mortgage loans, while the use made of the remaining amount of over £200 million cannot be ascertained, though a large part of it was probably employed for lending to (or for net purchases of securities from) individuals and for the purchase of new securities placed privately by companies. As regards item (ii) above, the 1955 data show an improvement of £74 million in the personal sector's net bank position (deposits less advances), an increase of £40 million in national savings and one of £15 million in net claims on building societies, and, finally, a rise of £25 million in hire-purchase indebtedness. Since these items taken alone add up to a financial surplus of £104 million, while the financial deficit for the group (excluding life assurance and pension funds) is estimated to have been £308 million, there remains an unidentified personal-sector deficit amounting to £412 million, presumably consisting of such items as trade credits granted by companies to individual entrepreneurs, private borrowing from life assurance and pension funds and net sales of security holdings.

In the company sector, the financial surplus reached its maximum in the years 1953-54, when saving continued to expand while net capital formation showed a temporary decline. In 1954-55, despite a further substantial increase in saving, net investment grew so rapidly that the financial surplus greatly diminished, shrinking in 1955 to only £143 million. In 1956, although fixed domestic investment rose to a greater extent than undistributed profits, the difference was more than offset by a sizable decline in the rate of stock accumulation. The sector's financial surplus therefore increased again to about £260 million — a development which was reflected in a sharp improvement in net foreign investment.

In this sector, too, information on changes in financial claims is very fragmentary. It has been estimated, however, that in 1955 the financial surplus for the sector totalled £129 million,* which may be divided into a surplus of £150 million for "financial" companies (including, for example,

* This estimate of the financial surplus does not tally with the revised one given in the table, since it has been necessary to rely, for the detailed (and in some cases incomplete) figures appearing in this paragraph, principally upon the Blue Book on the national income published in July 1956.

banks, building societies, and investment trusts, but not life assurance and pension funds) and a deficit of £21 million for non-financial companies. Since the non-financial companies are estimated to have increased their net borrowing in the form of advances from banks by £50 million, and to have floated new public issues totalling £214 million (the corresponding figure for 1956 was £236 million), there remains an unidentified surplus of £243 million, which is presumably to be explained in part by changes in cash holdings, a growth in the volume of trade credit to other sectors, the acquisition of securities, and net investment abroad. As mentioned above, the financial companies had in 1955 a surplus of £150 million, the employment of which is not ascertainable but which may well have consisted in part of foreign investment and of the acquisition of publicly-quoted private securities. The net financial transactions of the sector which are identifiable include the acquisition of additional loanable funds to the amount of £290 million (mainly through the liquidation of holdings of government securities and through new capital issues), but this increase in resources was practically offset by the net change in customer relationships with the banks (deposits having declined by nearly £330 million and advances by almost £50 million).

The public corporations steadily dissaved — in the sense that their gross saving was inadequate to provide for estimated capital consumption — at a rate of roughly £100 million a year from 1950 to 1956. A steady expansion in their net investment was accordingly reflected, up to 1956, in a rapid increase in borrowing, partly from the central government but mainly by means of advances obtained from the banking system and periodically funded by the issue of long-term securities in the market. A change in this method of financing was introduced in the budget of April 1956, when the Treasury assumed responsibility for meeting the financial requirements of the public corporations by including them within the structure of the budget. The prospective increase in 1957–58 in the central government's budget surplus on current account suggests, moreover, that a larger proportion of the financial needs of the public corporations will in future be covered by government saving.

The central government was a heavy lender to local authorities and other sectors in the years 1950–51, when a large increase in the volume of funds available for investment (consisting in part of the proceeds of taxes on capital) was unaccompanied by any net rise in government investment. In the years 1952–53 the government's financial surplus was reduced owing both to a deterioration in its savings position (i.e. a decline in the current-account budget surplus) and to an increase in investment in stocks, but it expanded again in the years 1954–55 as stocks were allowed to run down. Throughout the period from 1950 to 1955 the local authorities were the largest borrowers (mainly from the central government), principally because of their extensive house-building programmes and a negative rate of current saving on revenue account (which includes grants from the central government). A move to remedy this situation was made in 1956, when the government introduced measures designed to cut down its lending to the local authorities by compelling them to cover an increasing proportion of their capital needs through ordinary capital-market channels.

As a result there was in 1956 a very pronounced change, compared with 1955, in the pattern of the local authorities' borrowing, the emphasis having shifted from the central government to the capital market.

If the accounts of the government are combined with those of the local authorities, it appears that between 1950 and 1956 the public authorities borrowed, on balance, a substantial amount of funds from other sectors. Further, since the financial surplus of the company sector roughly offsets the deficit of the public corporations, the business sector as a whole would seem to be in balance. One is thus left, from an accounting point of view, with the surplus of the personal sector serving as a counterpart to the public authorities' deficit and to the country's foreign surplus.

This mode of presentation does not, however, give an adequate picture of the economic situation, since in fact investment abroad (leaving out of account changes in gold and foreign exchange reserves) is mainly undertaken by companies and financed out of their domestic surplus. It would seem closer to reality to regard the private sector as a whole as being the provider of finance for foreign investment and for part of the investment of the local authorities and the public corporations. Finally, in assessing the significance of the large net acquisition of financial assets by companies, it should be recalled that this sector includes companies engaged in banking and finance, i.e. a sub-group in which undistributed profits are to a large extent used for just this purpose.

In five of the seven years from 1950 to 1956, the net saving of the British economy was greater than net domestic investment. During the second half of 1954 and in 1955, however, the growth in total demand, stimulated by the rapid rise in investment outlay, proved to be too great and led to a rise in prices and a deterioration in the balance of payments. Restraining measures, principally of a monetary nature, had to be introduced towards the end of 1954, and these were reinforced in the course of 1955 and 1956. The difficulty appears to have been largely due to the fact that the rise in investment spending was too rapid and went further than the authorities had earlier envisaged. While capital formation was accelerating and assuming boom proportions, the savings necessary to support the growing rate of investment were not forthcoming in sufficient volume. Current expenditure by public authorities on goods and services was kept at the same level from 1952 to 1955, but private consumption rose, in real terms, by just over 12 per cent.

Within the last year or so, economic policy has pursued the twofold aim of slowing down the increase in the demand for investment goods while at the same time bringing savings up to the level now required in view of the higher rate of investment. The gradual and persistent intensification of measures of restraint, which were first applied in the latter part of 1954, finally seemed in 1956 and the early part of 1957 to be producing the desired results, although at the cost of a temporary halting of the earlier rising trend of output and a necessary reshuffling of activity. The achievement of a fairly satisfactory degree of selectivity is suggested by the fact that expenditure on

private consumption did not rise, in real terms, in 1956, while productive investment in industry continued at the new high level and was accompanied by a reduction of the inflated volume of outstanding orders for capital goods. Moreover, as in 1952, when industrial output also momentarily ceased to rise, exports showed a most encouraging increase.

The general distribution of resources between investment, consumption and the external balance therefore appears to have improved in 1956, especially as regards the proportion going into fixed capital investment and exports. The whole of the increase in the domestic product achieved in 1956, equal to roughly 1 per cent. (at 1955 factor cost), went to increase exports of goods and services. There was a notable shift in the distribution of manpower in manufacturing industry from the production of durable goods to that of capital goods, although this was coupled with a less desirable shift from manufacturing industry to the distributive trades. The resources released through the restriction of domestic demand were not entirely absorbed by foreign demand, and there were a few pockets of unemployment or under-employment in some durable-goods industries, notably the motor-vehicle industry.

* * *

In France the experience of recent years has been that about two-thirds of total net saving is accounted for by the personal sector (which includes the saving of individual entrepreneurs, except for reinvested earnings).

France: Net national saving and investment.

Items	1950	1951	1952	1953	1954	1955	1956
	as percentages of net national product at market prices						
Net national investment							
Net domestic fixed-capital formation	7.0	7.6	7.2	6.9	7.7	9.1	9.9
Physical increase in stocks	3.6	1.7	2.3	1.0	1.1	0.8	1.5
Net investment abroad	2.7	- 0.2	- 0.9	0.1	1.3	1.3	- 2.2
Total investment	13.3	9.1	8.6	8.0	10.1	11.2	9.2
Net national saving							
Households	7.4	5.3	5.9	5.0	6.1	6.5	6.1
Business ¹	4.1	2.4	3.4	3.3	3.8	4.8	4.6
Public authorities ²	1.8	1.4	- 0.7	- 0.3	0.2	- 0.1	- 1.5
Total saving	13.3	9.1	8.6	8.0	10.1	11.2	9.2

¹ Undistributed profits of companies and nationalised industries plus re-invested earnings of individual entrepreneurs. Receipts in the income appropriation account include war-damage compensation and two types of subsidies ("subventions d'équilibre" and "subventions d'équipement") which can be considered as being in the nature of capital transfers. The figures for these items are as follows:

War-damage compensation and capital transfers from the public authorities	3.3	2.1	2.1	2.2	2.3	2.2	2.2
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² This is the balance of the public authorities' revenue appropriation account, net of depreciation allowances. In comparing it with the corresponding balance for the United Kingdom, allowance should be made for the following two items, which in the case of France are included in the revenue account (see note to table on page 34):

War-damage payments and capital transfers	4.8	3.5	3.3	3.3	3.5	3.2	3.0
Receipts (-) from international co-operation	- 2.3	- 1.4	- 1.2	- 1.4	- 2.0	- 1.4	- 0.6

Corporate business (including nationalised industries) provides the remaining third, while the contribution of the public authorities — sometimes positive and sometimes negative — is only slight.

The proportion of net national saving originating in the corporate sector is higher in the case of the United Kingdom, this being partly due to structural differences, in particular the greater importance of corporate business in that country. A more exact comparison of the position of French and British business as regards saving may be made by relating the sector's net saving to its net output (equal to wages, salaries, employers' contributions and rent paid by business, plus gross trading profits).

Business saving in relation to output in France and the United Kingdom, 1955.

Items	Net saving	Net output	Net saving as a percentage of net output
	in national currency units ¹		
United Kingdom			
Public corporations	— 119	1,528	— 7.8
Companies	902	9,150	9.9
Total corporate enterprise . .	783	10,678	7.3
Self-employed	99 ²	2,853	3.5
Total business enterprise . .	882	13,531	6.5
France			
Total business enterprise . .	729 ²	11,010	6.6

¹ In millions of pounds sterling and milliards of French francs.

² The net saving of individual entrepreneurs is considered to be equal to their net investment, and thus excludes any profits which they may withdraw from their enterprises.

In reality, the position of business saving in France is less favourable than the two tables suggest, because the sector's net saving, as defined in the French national accounts, is calculated on the basis of receipts which include war-damage compensation and certain capital grants by the state. During the years under review, this stream of government funds (shown in a footnote to the first of the two tables above) averaged well over one-half of the net saving of the sector.

In the case of the French economy as a whole, saving and capital formation during the years under review show a fluctuating movement — mainly influenced by domestic policies — rather than a definite trend. From the promisingly high levels of 1950 the rates receded to a low point in 1953. The subsequent increase in total saving throughout 1954 and 1955 was sufficient, however, not only to make possible a renewed growth in domestic investment but also to permit a revival of net investment abroad, mainly in the form of increased holdings of foreign exchange.

French official documents state that from 1954 onwards the government's spending and credit policies were instrumental in bringing about a change of attitude towards investment on the part of entrepreneurs. It is maintained that by increasing aggregate demand and facilitating the

financing of investment, such policies, partly through their effect on stock-exchange quotations, induced entrepreneurs to plan for expanding markets. The productive system did in fact display a remarkable capacity for meeting the increasing demand, both for consumption and investment.

With the approach of full employment, however, any unfavourable turn in the supply/demand position was bound to put a strain on resources. Such a turn came in 1956, when a bad crop year coincided with a reduction in foreign aid and an increase in government consumption.

An import surplus drains from the market an excess of purchasing power. Hence, measures which merely restrict the volume of imports will leave the excess purchasing power to chase domestic goods and are therefore apt to be self-defeating, both because they tend to reduce exports and because they affect the domestic supply/demand position in such a way that the general problem of controlling inflation at home becomes more difficult.

Though such measures may have a place in a short-term programme for dealing with the problem of external balance, in the wider context of monetary stability and economic growth a more comprehensive policy will be needed, capable of reducing excess purchasing power at its sources. In France the expenditure of the public authorities — the source of purchasing power over which the government has immediate control — roughly doubled during the period from 1950 to 1955. When this sector is considered as a whole and transfer payments to other sectors are set off against similar receipts, it appears that the public authorities' combined net deficit is to a large extent made up of their net transfer payments, and that these are expanding faster than the national product. In contrast to the developments in the United Kingdom, between 1950 and 1955 the proportion of the net national product represented by the expenditure of public authorities on net transfer payments rose from 9.7 per cent. to 11.3 per cent. and the corresponding figure for the public authorities' consumption expenditure (the main item of which is defence) from 3.7 to 5.0 per cent. While current transfer payments do not directly absorb resources in the same way as does military and other direct government expenditure, most of them are such as to provide for the immediate consumption needs of persons or to assist marginal producers, and thus have the effect of shifting the use of income from investment to consumption. Consequently their rapid growth conflicts with the need to increase total savings in order both to maintain a satisfactory rate of capital formation and to improve the foreign balance.

The relative importance of various categories of transfer payments in France in 1956 may be seen in the following table, which also shows in some detail how the financial surplus for each sector is arrived at. The four major categories of transfer payments by the public authorities amounted to approximately Fr.fcs 2,100 milliard in 1956, or more than twice the expenditure of this sector on actual goods and services (excluding wage and salary payments to civil servants). In the

**France: Income, taxation and transfer payments in relation
to the financial surplus, by sectors, 1956.**

Items	Public author- ities ¹	Business	House- holds	Total
	in milliards of French francs			
Direct taxation	988	— 566	— 422	—
Indirect taxation	3,019	— 2,955	— 64	—
Social security contributions and benefits	— 746	— 1,365	2,094	— 7
Subsidies and capital grants ²	— 817	617	—	—
War-damage compensation	— 261	118	143	—
Public-assistance payments	— 480	—	480	—
Factor income and unspecified transfers	— 1,121	6,180	10,932	15,991
Total funds available from factor income and transfers	782	2,039	13,163	15,984
Consumption	1,000	—	11,890	12,890
Depreciation and stock appreciation . .	28	1,283	262	1,573
Net saving ³	— 246	756	1,011	1,521
Net investment	347	1,134	413	1,894
Financial surplus or deficit(-) . .	— 593	— 378	598	— 373⁴

¹ Including social security accounts. ² Consisting of "subventions d'exploitation" (Fr. fcs 376 milliard), "subventions d'équilibre" (Fr. fcs 150 milliard), and "subventions d'équipement" (Fr. fcs 91 milliard).
³ These totals are the same as those presented as percentages of the net national product in the table on page 42. ⁴ Net foreign investment.

business sector, net receipts of subsidies and capital grants (including war-damage compensation) totalled Fr.fcs 735 milliard, equivalent to virtually the whole of the net saving of the sector. Finally, it will be noted that the financial surplus of the private-household sector in 1956 was approximately equal to the deficit of the public-authority sector, while the deficit of the business sector was about the same size as the foreign deficit. The fact that these balances offset one another does not, however, reflect the actual financial relationships between sectors, which can be assessed more clearly from the table showing the trend of sectoral saving, investment and net financial transactions since 1950.

The personal sector made the largest contribution to total net saving in the years 1950-51, and has since further strengthened its position in this respect. Since, however, this sector began at the same time to account for an increasing part of net investment (mainly through the development of house-building), its financial surplus has remained fairly stable. In the public-authority sector, where net investment was also steadily increasing during this period, net saving suddenly became markedly negative in 1956, primarily owing to a large increase in military expenditure and a further growth in social charges. In the business sector, net saving has risen only slowly since the years 1952-53, while net capital formation has sharply accelerated, with the result that by 1956 this sector had become a heavy net borrower. Thus, while the deficit-financing requirements of the public-authority and business sectors had become exceptionally large by 1956, the private-household sector provided a financial surplus only slightly greater than in earlier years. The

France: Saving, investment and changes in financial assets, by sectors.

Sectors	Years or annual averages	Investible funds			Uses of investible funds	
		Gross saving	Less: depreciation	Net saving	Net domestic capital formation	Financial surplus or deficit (—) ¹
in milliards of French francs						
Private households . . .	1950-51	782	178	604	74	530
	1952-53	936	240	696	215	481
	1954	1,096	242	854	335	519
	1955	1,251	250	1,001	423	578
	1956	1,273	262	1,011	413	598
Business enterprises . . .	1950-51	1,579	694	685	1,122	— 437
	1952-53	1,731	1,210	521	764	— 243
	1954	1,759	1,233	526	611	— 86
	1955	1,982	1,253	729	779	— 50
	1956	2,039	1,283	756	1,134	— 378
Public authorities	1950-51	170	18	152	139	13
	1952-53	— 35	25	— 60	233	— 293
	1954	54	26	28	274	— 246
	1955	12	27	— 15	319	— 334
	1956	— 218	28	— 246	347	— 593
Total	1950-51	2,531	1,090	1,441	1,335	106 ²
	1952-53	2,632	1,475	1,157	1,212	— 55 ²
	1954	2,909	1,501	1,408	1,220	188 ²
	1955	3,245	1,530	1,715	1,521	194 ²
	1956	3,094	1,573	1,521	1,664	— 373 ²

¹ Net acquisition of financial claims plus net foreign investment.

² Net foreign investment.

result — to which all three sectors contributed in greater or lesser degree — was an external deficit of disturbing proportions.

The French Treasury plays an important rôle as a lender of funds to business enterprises (including the nationalised industries) and also to house-building. The gross borrowing requirements of the public authorities are equal to their financial deficit, as shown in the table on page 45, plus the amount of such lending. In 1955, when the financial deficit was Fr.fcs 334 milliard, total borrowing was in excess of Fr.fcs 1,000 milliard, of which over Fr.fcs 700 milliard was re-lent. While more than half of the borrowing (partly from the credit system) was at short term, most of the lending was at medium or long term. Thus the Treasury, acting as a financial intermediary, channelled into long-term investment a large volume of funds that in normal banking practice would have been available only for short-term credit.

The financial deficit of the business sector, which in the years 1950-53 was equal to roughly one-third of its net capital formation, became distinctly smaller in 1954-55, but in 1956 it returned to about the same level as before. The net amount of funds raised by business on the capital market thus remained relatively small, especially as far as the issue of shares was concerned. The volume of gross borrowing by business from banks and the government, however, increased more than the trend of the overall

(net) borrowing needs of the sector would suggest, showing that some of the funds derived from profits or borrowing were used for the acquisition of financial assets by individual enterprises (in so far as such funds were represented by intra-sector finance) or by the business sector as a whole (in so far as the funds were supplied to the sector by outside sources of finance). This no longer seems to have been the case in 1956, when the tightening of liquidity conditions may have forced business firms to use a larger part of their profits for the financing of their own investment rather than for acquiring financial assets.

Personal saving in France consists to a considerable extent of the accumulation of currency holdings; about one-third of net personal saving has apparently taken this form in recent years. Less liquid forms of saving — mainly the acquisition of houses, capital-market securities and savings deposits — are, however, increasing in relative importance. One of the factors contributing to the shift towards deposits and securities has been the inflow of capital from Indo-China and French North Africa.

The factors responsible for the unusually low rate of business saving would seem to include the large size of the nationalised sub-sector — which produces for use rather than for profit and includes an over-developed railway system — and the extensiveness of price control (for instance in the case of metal products and steel). Moreover, the relative importance in France of small business and agriculture, and the various forms of protection afforded them, tend to restrict the total volume of business saving. It would also appear that a disproportionate tax burden falls upon medium and large-scale industry.

In relation to business savings, personal savings in France are quite high. But this state of affairs is more or less to be expected, since an unusually large proportion of total incomes — some 30 per cent. — is earned by self-employed persons. As already mentioned, the existence of a very large number of marginal shopkeeping and agricultural establishments is probably an important factor tending to inflate personal savings to the detriment of total savings.

* * *

In the German Federal Republic net saving rose to a peak during the 1951 boom, receded slightly in 1952, and thereafter climbed steadily, reaching a new record level in 1956, when net investment (domestic and foreign) represented 21.1 per cent. of the net national product. Foreign aid remained a minor source of investment finance until 1952, but as early as 1951 net investment abroad had begun greatly to outweigh aid receipts.

The rate of investment in fixed domestic assets rose substantially during the period under discussion, having increased from 13.7 per cent. of the net national product in 1951 to 16.7 per cent. in 1955, from which level it declined only slightly in 1956. Investment in stocks had by 1956 fallen off

somewhat from the 1951 peak, but it still continued at a high rate, while — except in 1955 — net investment abroad has steadily kept at about 2 per cent. of the net national product since 1951. A large proportion of the new capital formed has gone into house-building, the replenishment of depleted stocks and investment abroad (mainly in the form of increases in the country's foreign exchange reserves and in its claims on the E.P.U.). Even after these facts have been taken into account, however, the rate of productive investment in industry is still markedly higher than in the other major western European countries, and apparently also higher than in the United States.

In no year throughout the period did personal saving cover more than one-quarter of net investment. Business saving was the main source of finance in the early years of the period, but from 1953 to 1955 public-authority saving played an equally important rôle. In 1956 saving by the public authorities gained ground still further in relation to the other sectors, increasing to 45 per cent. of total net investment, i.e. to nearly DM 16 milliard out of a total of DM 35 milliard.

Germany: Net national saving and investment.

Items	1950	1951	1952	1953	1954	1955	1956
	as percentages of net national product at market prices						
Net national investment							
Net domestic fixed-capital formation	13.9	13.7	13.0	14.1	14.5	16.7	16.0
Physical increase in stocks	1.2	4.9	4.2	3.4	3.7	3.4	3.2
Net investment abroad	- 0.1	2.7	2.1	2.7	2.0	0.9	1.9
Total	15.0	21.3	19.3	20.2	20.2	21.0	21.1
Net national saving							
Households	2.6	2.6	3.9	4.7	5.1	4.4	4.2
Business	6.6	12.2	9.3	7.7	7.0	8.1	7.8
Public authorities	4.0	5.6	5.9	7.8	8.0	8.7	9.4
Net national saving	13.2	20.4	19.1	20.2	20.1	21.2	21.4
Capital transfers from abroad	1.8	0.9	0.2	—	0.1	- 0.2	- 0.3
Total	15.0	21.3	19.3	20.2	20.2	21.0	21.1

This shift in the comparative importance of the sectors as sources of saving was not accompanied by any similar shift in the volume of their investment; on the contrary, over the whole period the proportion of total net domestic investment undertaken by the public authorities varied only within narrow limits — between 12 and 15 per cent. of the total. As a result of these divergent trends in sector saving and investment, business came to depend for the financing of investment to a larger extent on external funds and these were increasingly provided by the public authorities. In fact, the share of total net investment that was financed out of retained profits decreased from an average of about 63 per cent. in the three years 1950-52 to 46 per cent. in 1955 and 47 per cent. in 1956. The proportion of the current surplus of the public authorities used to finance investment within

the sector decreased from about one-half in the years 1950-51 to one-third in the last years of the period. The greater part of the current surplus was therefore available for the acquisition of claims on other sectors. One stream flowed back to the private sector (through the credit institutions or through the direct acquisition by the public authorities of securities and other financial assets) and helped to finance domestic investment. Another stream flowed to the central bank and may be said, in more than one sense, to have financed the accumulation of foreign exchange.

Germany: Saving, investment and changes in financial assets, by sectors.

Items	1950				1956			
	Public authorities	Enterprises	Households	Total	Public authorities	Enterprises	Households	Total
in milliards of Deutsche Mark								
Net saving	3.3	5.6	2.2	11.0	15.6	12.9	6.9	35.4
Capital transfers	1.7	- 0.1	-	1.5	- 0.8	- 0.1	0.4	- 0.5
Total	4.9	5.4	2.2	12.5	14.9	12.8	7.2	34.9
Net investment	1.8	10.9	-	12.7	4.8	27.0	-	31.7
Financial surplus	3.1	- 5.5	2.2	- 0.1 ²	10.1	-14.1	7.2	3.2 ²
Distributed as follows:								
Net increase in claims on or liabilities towards (-)								
Banks	2.2	- 4.5	1.4	- 0.9	4.4	- 5.6	3.6	2.4
Building societies	0.0	- 0.4	0.4	0.0	- 0.0	- 1.8	2.0	0.2
Insurance companies	- 0.0	- 0.2	0.4	0.1	- 0.1	- 0.6	1.0	0.3
Other domestic debtors (or lenders)	0.6	- 0.6	-	-	3.0	- 3.0	-	-
Net purchases or sales (-) of securities	0.1	- 0.3	-	- 0.1	1.7	- 0.9	0.6	1.3
Net capital export or import (-) ¹	0.3	0.4	0.0	0.7	1.1	- 2.1	-	- 1.0
Total	3.1	- 5.5	2.2	- 0.1³	10.1	-14.1	7.2	3.2³

¹ Net increase in claims on foreign countries, west Berlin and eastern Germany, but not including increase in gold and foreign exchange holdings and statistical discrepancies. ² Net foreign investment.
³ This figure represents the financial counterpart of net foreign investment, including the net export of capital and the change in gold and foreign exchange holdings.

The validity of international comparisons of saving and investment by sectors is impaired by differences in the definition of the sectors and of the categories "savings" and "investment" themselves. These differences are not so great, however, as to invalidate certain broad conclusions which may be drawn from major disparities between one country and another. Moreover, the examination of trends over a period of time reveals changes in the relative position of the various sectors in the different countries without necessitating any direct international comparison of data.

Among these trends the most prominent is the impressive expansion of public saving in Germany, which contrasts sharply with the deterioration since 1950 in the budgetary position of the United Kingdom and, particularly, of France. On the other hand, the rate of personal saving has not

increased in Germany, whereas it rose considerably in the United Kingdom during the period and there has been a revival in personal saving in France since the 1952-53 stabilisation. In view of these trends, it is not surprising that the high rate of capital formation in Germany is coming increasingly to be identified with the country's growing budget surpluses on current account, the relatively high rate of business saving, though important in itself, being in comparison a minor factor.

This being so, it seems worth while — particularly in view of the implications of Germany's exceptionally large external payments surplus — to examine in more detail the country's high rate of saving. In the table on the previous page, which shows the financial surplus of each sector, together with its borrowing and lending activity, it will be seen that the net saving of the public authorities rose from DM 3.3 milliard in 1950 to DM 15.6 milliard in 1956. The manner in which this figure is calculated is shown in some detail in the table below, though in this case the figures go back only to 1953.

Germany: Current receipts and expenditure, and net saving, of public authorities.¹

Items	1953	1954	1955	1956	Percentage change 1955-56
	in milliards of Deutsche Mark				
Receipts					
Taxes	35.3	36.9	40.7	45.2	+ 11.0
Social insurance contributions	10.6	11.6	13.5	15.1	+ 11.3
Other receipts ²	2.2	2.4	3.0	3.1	+ 2.6
Total	48.3	50.9	57.2	63.3	+ 10.6
Expenditure					
Current purchases of goods and services	22.5	24.0	25.3	25.8	+ 2.0
Public transfer payments	14.4	14.9	16.7	18.7	+ 12.4
Other expenditure ³	1.8	1.5	2.5	3.1	.
Total	38.5	40.3	44.3	47.7	+ 7.6
Surplus on current account (net saving)	9.7	10.8	13.1	15.6	+ 19.1

¹ Central and local government, social insurance institutions, Equalisation of Burdens Fund and E.R.P. special fund. Items may not add up to totals because of rounding.

² Income from property and the activity of enterprises.

³ Including subsidies, interest payments, current transfers to foreign countries and west Berlin, and errors and omissions.

According to the above table, social insurance contributions and public transfer payments (the latter consisting mainly of social insurance and equalisation-of-burdens benefits) both rose by the same amount — namely DM 4.3 milliard — from 1953 to 1956. The growth in public-authority saving was therefore attributable to an increase in tax receipts in excess of the rise in current expenditure on goods and services, and this in turn was due only to a minor extent to the failure of defence expenditure to absorb the tax revenue raised for this purpose. The latter factor has, it is true, been the main reason for the cash surplus in the financial budget of the Federal Government, which amounted to DM 868 million in the calendar year 1956 and

reached a cumulative total of over DM 6.7 milliard in the years 1952-56. This surplus, which now seems to be disappearing as a result of a rising trend of defence and other expenditure, has up to the present been temporarily sterilised in the form of government deposits held with the central bank.

Still more important for the financing of investment has been the large volume of funds that the public authorities have placed with the credit institutions at medium and long term for re-lending to the private sector. As is shown in the table below, this flow of capital — largely earmarked for specific borrowers or purposes — amounted in 1956 to DM 3,730 million, bringing the total of such public-authority funds outstanding to DM 20,660 million at the end of the year. A large part, but by no means all, of these funds are provided to help in the financing of social housing. This is particularly true in the case of the funds placed with the central giro institutions, the savings banks, and the private and public mortgage banks. With regard to the resources provided by the credit institutions with special functions, the net new lending of the Reconstruction Loan Corporation is no longer as great as it once was — being restricted now for the most part to the earnings on the revolving fund originally formed with E.R.P. counterpart funds — but, even so, its loans still help to finance investment in a wide range of basic and manufacturing industries. Of greater importance is the Equalisation of Burdens Bank, which in 1956 granted loans, for a wide variety of purposes, of the order of DM 1,000 million.

Germany: Public authorities' funds placed with credit institutions (excluding the central-banking system) at medium and long term.¹

Institutions	End of year			Change during year		
	1954	1955	1956	1954	1955	1956
in millions of Deutsche Mark						
Commercial banks	440	720	830	+ 160	+ 290	+ 110
Central giro institutions	1,810	2,770	3,180	+ 770	+ 960	+ 410
Savings banks	670	810	1,040	+ 140	+ 140	+ 230
Private and public mortgage banks	3,030	3,920	4,760	+ 810	+ 890	+ 840
Credit institutions with special functions ²	6,790	8,580	10,710	+ 1,750	+ 1,790	+ 2,130
Other Institutions	120	130	140	+ 10	+ 10	+ 10
Total	12,860	16,930	20,660	+ 3,640	+ 4,070	+ 3,730

¹ Excluding agricultural credit institutions.

² Including the Reconstruction Loan Corporation and the Finanzierungs-A.G., the Equalisation of Burdens Bank, the Industrial Credit Bank, etc.

Not all public-authority funds made available for private investment purposes are channelled through the banking system. In 1956, there was an increase of DM 3 milliard in direct claims by the public authorities on the private sector (mainly against business enterprises), a large part of this amount having presumably been of a long-term character. In addition, the public authorities are estimated to have purchased securities to the value of DM 1.6 milliard from the private sector. These purchases would appear

to have been made mainly by the social insurance institutions and the Unemployment Insurance Fund and probably consisted largely of acquisitions of mortgage bonds.

Turning to the business sector, it has already been mentioned that net saving (i.e. undistributed profits) is relatively high in Germany. Part of the explanation for this seems to be that tax allowances for depreciation are very generous and that — because of liberal tax privileges for special types of expenditure, loans, and savings — there are various ways in which business firms can employ funds so as to reduce their effective tax burden. But it is also due to some extent to the fact that distributed profits (after taxes) represent only a very small proportion of total profits. One reason for this is the exceptionally high level of interest charges on funds borrowed in the market, which encourages self-financing through the withholding of profits. Another is that company balance sheets in Germany generally show a remarkably low ratio of nominal capital to the market value of existing assets, so that even high dividends in terms of nominal capital represent only a low effective yield when measured in terms of current profits.

In spite of the large volume of net business saving in Germany, a substantial proportion of the business sector's total financial requirements — over one-half in 1956 — has in fact been met from external sources, as may be seen from the table on page 49. A considerable part of these borrowed funds has been provided — in the manner already described — by the public authorities, whose net saving (excluding capital transfers) has since 1950 grown much more rapidly than business saving. In a smaller measure, personal saving appears also to have increased more than business saving over this period, the funds in question continuing to flow to industry largely through the credit institutions. As is shown in the same table, personal financial claims showed a net increase of DM 7.2 milliard in 1956, one-half of this having consisted of claims on banks and most of the rest of claims on building societies and insurance companies.

As regards its total volume, however, the flow of personal saving in Germany is large, particularly in view of the unusually high level of public-authority and business saving. One reason is probably that personal saving is still being favourably influenced by the fact that the rebuilding of personal assets (liquid balances, houses, securities, etc.) started from such a low level after the war and the monetary reform of 1948. But this and other savings incentives have been reinforced by various special measures, largely in the form of liberal tax privileges applying to payments to building societies, life assurance premiums, and saving in various other contractual forms. Still another factor which seems to be of importance in Germany is the pattern of income distribution, which in turn is governed in large measure by the general structure of taxation. Taxation of personal income is generally less progressive than is the case, for instance, in the United Kingdom; in Germany the proportion of income paid out in taxes cannot normally rise above some 55 per cent. of an individual's total income, whereas

in the United Kingdom the maximum is not much below 90 per cent. Moreover, Germany relies heavily on indirect taxes — in particular, the turnover tax — which tend to be relatively regressive in nature. Finally, there can be little question that the vigorous monetary policy pursued by the Bank deutscher Länder has fulfilled one of the conditions necessary for a plentiful flow of personal savings.

After a large increase — of DM 2.8 milliard — between 1954 and 1955, the net saving of business enterprises in Germany rose by only DM 0.7 milliard, to a total of DM 12.9 milliard, in 1956. Since, however, the sector's net investment also showed only a small gain, having risen from DM 26.0 milliard in 1955 to DM 27.0 milliard in 1956, its financial deficit remained practically unchanged, amounting to DM 14.1 milliard in 1956 compared with DM 13.9 milliard in 1955. In the personal sector, the financial surplus — an important source of capital for the business sector — showed little change between 1955 and 1956; although personal disposable income rose by almost 10 per cent., personal saving at the same time declined from 6.8 to 6.4 per cent. of disposable income. The net saving of the public authorities, on the other hand, increased from DM 13.1 milliard in 1955 to DM 15.6 milliard in 1956, and accounted for almost three-quarters of the total increase in the country's net saving.

It can thus be seen that the substantial growth in public-authority saving in 1956 was reflected not in an increased flow of capital to business enterprises but, instead, in a much higher rate of net foreign investment (including the net change in the gold and foreign exchange reserves), which rose from DM 1.4 milliard in 1955 to DM 3.2 milliard in 1956. The explanation of this development lies partly in the fact that the domestic demand for investment goods (and hence also for loanable funds) levelled off rather suddenly in 1956 under the combined influence of rising production costs, a progressive tightening of credit during the second half of 1955 and the early months of 1956, and a cash surplus in the Federal Government's budget. Another part of the explanation — perhaps equally important — is that, as domestic demand for capital goods slackened off, a larger proportion of Germany's increasing output of these goods was diverted into foreign markets where demand was still buoyant, thereby contributing to the development of the large balance-of-payments surplus.

It must be stressed, however, that if in the future the Federal Government's cash surplus were to disappear, or even to be replaced by a small deficit, the total volume of saving by the public authorities (including the funds raised in the form of tax revenue or social insurance contributions and subsequently channelled to the private sector for investment purposes) would still remain considerably larger than in the other major countries. This saving may therefore be expected to continue not only to facilitate the maintenance of an exceptionally high rate of investment in Germany but also to contribute to bringing about further balance-of-payments surpluses on current account. Certain of the measures adopted by the German authorities —

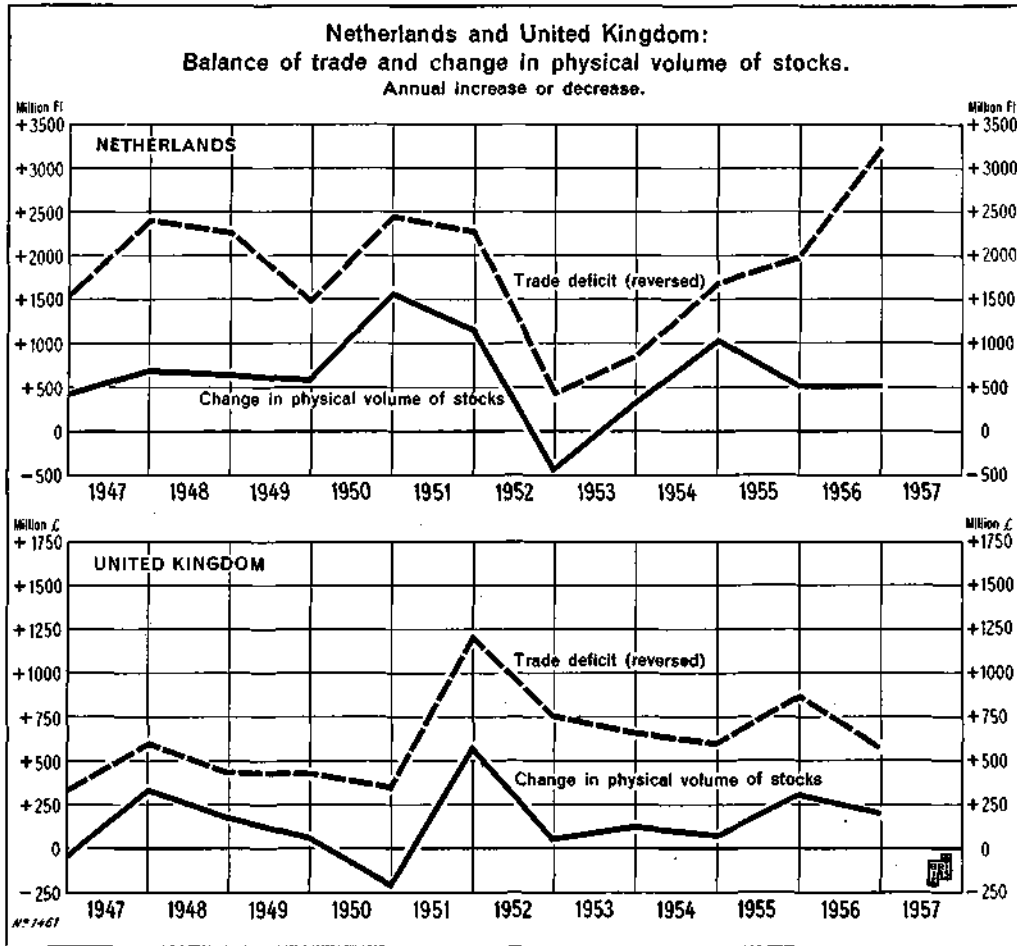
e.g. the progressive reduction of customs tariffs and the raising of social insurance benefits — may stimulate private consumption somewhat, and this is also true, in the public sector, of the anticipated further increase in defence expenditure. Other policy measures that have been introduced — e.g. the accelerated repayment of foreign debt and the off-shore procurement of military equipment — are of a special and more or less temporary nature and therefore cannot provide any permanent solution to the problem of disequilibrium in intra-European trade.

On balance, therefore, it seems quite possible that Germany will prove capable of shouldering its prospective increased burdens without difficulty, while still maintaining an exceptionally high rate of national saving. From the long-term point of view, of course, it can hardly be regarded as desirable that the public authorities should continue to raise such a large volume of investment funds by means of taxation, and changes of policy in this respect may also be considered likely to contribute to the restoration of a healthy private capital market with a lower level of interest rates. Such changes would at the same time tend to reinforce the special measures taken to deal with Germany's external payments position. But, as far as its trading partners are concerned, they clearly cannot expect measures taken in Germany to provide a complete solution to their own payments problems vis-à-vis that country. In other words they themselves must make determined efforts to increase their own rates of saving.

* * *

In the post-war years up to 1953 the national product of the Netherlands expanded steadily; at the same time there was a notable reduction in the part going to private consumption, which fell from 71 per cent. in 1948 to 59 per cent. in 1953. This decline, which came to a halt in 1954 and 1955, was due to the fact that only about 40 per cent. of the increase in the national product was absorbed by private consumption over the period. The part going into investment remained roughly stable right up to 1955, but whereas up to 1951 over one-fifth of the total went into stocks, there has since been a shift towards fixed investment. Moreover, as until 1952 the government's current expenditure developed in step with the national product, the whole benefit of the containment of private consumption was reflected in an improvement of the current external balance. Instead of a deficit, which amounted in 1948 to 7 per cent. of the gross national product, there was by 1952 a surplus of 8 per cent. In the three years 1953-55, however, during which private consumption remained stable in relation to the gross national product, government expenditure increased somewhat, so that the balance-of-payments surplus was reduced.

The instability of the foreign balance appears to be due to the high degree of integration of the Dutch economy into the world economy (the sum total of the country's imports and exports of goods and services is



greater than the national product) and more particularly to changes in stocks, mainly of imported goods, for in several years investment in stocks has accounted for between one-quarter and one-third of total net domestic investment. In fact, in its external transactions the Dutch economy, like that of the United Kingdom, appears to switch frequently between the acquisition of foreign exchange holdings and of stocks of goods. This relation does not hold, however, with respect to the change which occurred between 1955 and 1956, when the increase in stocks was small, while the foreign balance deteriorated to the extent of Fl. 1.4 milliard, shifting, in terms of the national income, from a surplus of 3 per cent. to a deficit of 2 per cent. The worsening of the foreign-payments position was due to an increase — in relation to national income — in the three main items of domestic expenditure, private consumption having risen by 2 per cent., public consumption by 1 per cent., and fixed domestic investment, which in amount advanced most of the three, by rather more than 2 per cent.

Up to 1951 investment was financed to an appreciable extent by government and foreign saving, i.e. by budget surpluses and foreign grants and loans. But over the period 1952-55 the declining government surpluses add

up to a total smaller than that of the current surplus resulting from transactions with foreign countries, which means that since the 1952 recession domestic investment has been more than fully covered by the growth in the amount saved by the private sector (see the table below). In 1956, as already mentioned, the rapid expansion in domestic investment (which amounted to Fl. 5.8 milliard, as against an average of Fl. 3.2 milliard for the previous four years) was financed in part out of the foreign exchange reserves.

Netherlands: Saving and investment.

Yearly averages	Net saving		Net domestic investment	Foreign current-account balance
	Private sector	Public authorities		
in milliards of florins				
1949-51	1.3	1.2	3.0	- 0.5
1952-55	3.3	1.0	3.2	1.1
1956	4.7	0.5	5.8	- 0.6

The Dutch figures for investment outlay by the public authorities (as given in the table on the next page) include only expenditure on public works, while that on the public utilities and housing (together with war-damage and flood-damage compensation) is treated as a capital transfer from the public sector to the business sector, under which heading the investments in question are included.

For this reason it would appear that the responsibility for the decisions leading to the expansion in the volume of investment (and to the related deterioration in the country's foreign balance) was more evenly distributed between the public and private sectors than is suggested by the figures in the table, which show, for the private sector, a deterioration in the financial position (on a cash basis) larger than that for the whole economy. The worsening of the private sector's financial position was also partly due to the credit squeeze and the increase in consumption expenditure, which was affected in the second half of the year by the Suez crisis. The public sector showed a declining financial surplus until 1951, after which it had a growing financial deficit. Up to 1955 this was more than offset by the large financial surplus of the private sector (the difference between the two being the foreign surplus). Transactions on the capital market during the years 1952-55 thus consisted, on the one hand, of long-term lending by the private sector (through the institutional investors) to foreign countries and to the public sector and, on the other hand, of lending, within the private sector, by the institutional investors to business and individuals.

During recent years the government's long-term borrowing has exceeded its financial deficit, while that of the local authorities has covered a large part of their deficit. Consequently, the changes in the pattern of liquidity as between the various sectors were influenced only to a minor extent by their individual savings positions.

Netherlands: Income, saving and the financial surplus.

Items	1955								1956											
	Financial surplus ²				Income ¹	Con- sump- tion	Depreci- ation	Net in- vestment	Capital trans- fers	Financial surplus ²				Income ¹	Con- sump- tion	Depreci- ation	Net in- vestment	Capital trans- fers	Financial surplus ²	
	a	b	c	d=a-b-c						e	f	g=d-e+f	h						a	b
	In millions of florins																			
Central government	3,440	2,450	220	770	110	- 690 ³	20	150	3,560	2,670	240	650	140	- 900 ³	390	110				
Local authorities	1,540	1,460	240	- 160	290	- 710	- 1,160	- 1,060	1,810	1,670	240	- 100	410	- 850	- 1,360	- 1,210				
Institutional investors and the capital market	1,950	-	-	1,950	-	-	1,950 ⁴	2,000 ⁴	1,950	-	-	1,950	-	-	1,950 ⁴	1,800 ⁴				
Business and persons	19,800	14,640	2,260	2,900	4,220	1,390	70	490	21,320	16,160	2,460	2,700	5,240	1,750	- 790	- 1,310				
Total domestic economy	26,730	19,550	2,720	5,460	4,620	-	840	300	28,640	20,500	2,940	5,200	5,790	-	- 590	- 610				

¹ Including current transfers and without any deduction for depreciation.

² The differences between the transaction and cash data are attributable mainly to differences between taxes due and taxes actually collected and to variations in trade credit.

³ Excludes capital transfers to foreign countries.

⁴ In this sector the difference between the transaction and cash data is partly due to a difference in the definitions of the aggregates.

Source: Central Plan Bureau, Central Economic Plan 1957.

Netherlands: Financial transactions by sectors.

Items	1955						1956						
	Financial surplus or deficit (-), cash basis	Domestic long-term borrowing or lending (-)	Foreign borrowing or lending (-)	Liquidity surplus or deficit (-)	Break-down of liquidity surplus or deficit		Financial surplus or deficit (-), cash basis	Domestic long-term borrowing or lending (-)	Foreign borrowing or lending (-)	Liquidity surplus or deficit (-)	Break-down of liquidity surplus or deficit		
					Borrowing (-) from banking system	Creation (-) of secondary liquidities					Borrowing (-) from banking system	Creation (-) of secondary liquidities	
	in millions of florins												
Central government	- 150	640	- 310 ¹	180	60	240	110	240	- 10 ¹	340	20	360	-
Local authorities	-1,060	660	-	- 400	- 170	- 50	-1,210	750	-	- 460	- 160	- 230	- 70
Institutional investors	2,000	-1,970 ²	-	30	30	-	1,800	-1,970 ²	-	- 170	90	-	- 260
Capital market	-	- 90	-	- 90	- 90	-	40	70	-	- 30	- 30	-	-
Business and persons	- 490	970	10	490	- 460	-	-1,350	1,170	- 390	- 570	- 460	-	- 110
Total domestic economy	300	210	- 300	210	- 750	190	610	120	- 400	- 990	- 580	130	- 440
Conversion of money into time deposits					210	- 210					40	- 40	
Foreign countries				210	- 540	750				- 890	- 540	- 350	
Change in money supply					- 210						890		
					750						- 350		

¹ Includes capital transfers to foreign countries.
² Includes estimated investment by institutional investors in real estate.
 Source: De Nederlandsche Bank, Report for the year 1956. Derived from tables 22, 23, 25 and 49 (some figures revised).

The degree to which the individual sectors had recourse to the money-creating institutions was also to a large extent independent of their overall liquidity positions. The main borrower is normally the private sector, but in recent years the amounts borrowed have been smaller than the increase in the liquid holdings of this sector. In 1956, however, owing to the domestic investment boom and a growth in consumption, an increase in bank borrowing by business and individuals was accompanied by a decrease in the private sector's liquid holdings.

In 1953, when the foreign surplus was in excess of Fl. 1 milliard, the transactions of the domestic economy with the banking system led to the withdrawal of half that amount, so that the money supply increased by half a milliard florins. A somewhat larger rise took place during the following two years owing to the combination of the expansive influence of a small foreign surplus (Fl. 200 million) with a substantial amount of borrowing, mainly by the private sector. In 1956, when borrowing from the banks did not offset the contractive influence of the foreign deficit, so that the money supply decreased, the volume of transactions continued to expand, owing to an increase in the income velocity of money to above the rates reached in previous periods of stringency (such as the post-Korea boom).

It has already been pointed out that, during the period under review, the volume of investment influenced the foreign balance mainly through its more volatile component (stocks). The 1956 report of the Nederlandsche Bank stresses the close relationship which exists between the volume of investment and the amount borrowed from the money-creating institutions. Because of the offsetting influence of the latter factor, changes in the foreign balance tend not to be translated into corresponding changes in the money supply. Moreover, such residual effects as they do have are apt in their turn to be offset (always in the short run) by changes in the velocity of circulation. Thus, taken together, changes in the volume of borrowing and changes in the velocity of circulation have tended to insulate the development of income (in money terms) from the expansive or contractive influences of the foreign balance on the money supply. This remark would seem to apply especially to developments in the Netherlands in 1953 and 1956.

* * *

The analysis made in this chapter shows that the fundamental position of each of the European countries studied — as reflected in its rate of progress and the soundness of its balance of payments — is closely related to its gross national saving and how this, in turn, is dependent upon saving in the principal economic sectors — government, business and personal. The analysis makes it clear that the promotion of saving in one sector can be expected to compensate for a low level of saving in another only to a limited extent, and it is therefore essential for the attainment of a satisfactory overall rate of saving that a substantial contribution should be made by each sector.

Among the different countries, the greatest divergency in the pattern of savings is to be found in the public sector. It is, of course, true that in times of insufficient monetary demand a reflationary programme of deficit-spending may be conducive to the achievement of higher levels of activity and investment. But when inflationary pressures prevail (as was the case during most of the years reviewed) the best way in which the public authorities can simultaneously help to attain the two aims of monetary stability and the expansion of investment is by themselves contributing in some measure to the total formation of savings.

The present chapter has not been closely concerned with the first of these two aims and, apart from the mention made of repercussions on the balance of payments, has left out of account some of the data most relevant to an understanding of monetary processes and to an assessment of economic policies. These matters will be taken up in the next chapter.

III. Money and Credit.

The pressure of investment and consumption demand on available resources in the last two years has made it necessary for the monetary and fiscal authorities to adopt new measures of restraint.

In 1956 and the early months of 1957 (up to mid-May) twelve European countries (Belgium, Finland, France, Germany, Greece, Ireland, the Netherlands, Spain, Sweden, Switzerland, Turkey and the United Kingdom) changed their official discount rates. Although these changes included reductions in the case of Germany (September 1956 and January 1957) and the United Kingdom (February 1957), the official discount rates in all the above-mentioned countries were higher at mid-May 1957 than they had been on 1st January 1956.

Outside Europe five countries altered their official discount rates: Canada, Chile, India, Japan and the United States. That of Chile was raised on 1st January 1956 from 9 to 12 per cent., that of the United States in two stages (April and August 1956) from $2\frac{1}{2}$ to 3 per cent., and that of India from $3\frac{1}{2}$ to 4 per cent. as from 16th May 1957. In the case of Canada the rate was first increased from $2\frac{3}{4}$ to $3\frac{1}{2}$ per cent. in three steps of $\frac{1}{4}$ per cent. each (April, August and October 1956) and was subsequently allowed to fluctuate together with, but $\frac{1}{4}$ per cent. above, the average tender rate for Treasury bills. During April 1957 the Canadian discount rate varied between 3.95 and 4 per cent., its level thus having been $1\frac{1}{4}$ per cent. above that at which it had stood on 1st January 1956. On 20th March 1957 the Bank of Japan raised its official discount rate from 7.3 to 7.665 per cent., while at the same time lowering the penalty rate applied to the central bank's lending above certain fixed limits, and on 8th May the official discount rate was raised again to 8.395 per cent.

The only western European country that has made no change in its official discount rate since July 1950 is Italy, whose rate was last changed on 6th April 1950, when it was lowered from $4\frac{1}{2}$ to 4 per cent. Switzerland, which had kept its official discount rate at $1\frac{1}{2}$ per cent. since 26th November 1936, raised it by 1 per cent. to $2\frac{1}{2}$ per cent. as from 15th May 1957.

Other instruments of monetary policy have also been employed in the past year. In a number of countries (e.g. Austria, France and the Netherlands) changes were made in the minimum-reserve requirements to be observed by credit institutions, in others ceilings were imposed on the volume of credit — a move which usually led to a reduction of outstanding loans — and in more than one case consumer credit came under fire.

Greater efforts were also made to stimulate the flow of monetary savings by raising the rates allowed on various forms of savings deposits

Changes in official discount rates since July 1950.

Country and date of change	Official discount rate	Country and date of change	Official discount rate	Country and date of change	Official discount rate
	in %		in %		in %
Austria		Finland (contd)		New Zealand	
10th July 1935	3½	16th December 1951 . .	5½	26th July 1941	1½
6th December 1951 . . .	5	1st December 1954 . . .	5	13th April 1954	3½
3rd July 1952	6	19th April 1956	6½	26th November 1954 . . .	4
22nd January 1953	5½	France		1st July 1955	5
26th March 1953	5	8th June 1950	2½	5th September 1955 . . .	6
24th September 1953 . . .	4	11th October 1951	3	19th October 1955	7
3rd June 1954	3½	8th November 1951	4	Norway	
20th May 1955	4½	17th September 1953 . . .	3½	9th January 1946	2½
17th November 1955	5	4th February 1954	3¼	14th February 1955	3½
Belgium		2nd December 1954	3	South Africa	
6th October 1949	3½	12th April 1957	4	13th October 1949	3½
11th September 1950	3¼	Western Germany		27th March 1952	4
5th July 1951	3½	14th July 1949	4	29th September 1955	4½
13th September 1951	3¼	27th October 1950	6	Spain	
18th December 1952	3	29th May 1952	5	22nd March 1949	4
29th October 1953	2½	21st August 1952	4½	1st July 1954	3½
4th August 1955	3	8th January 1953	4	10th September 1956	4½
6th December 1956	3½	11th June 1953	3½	Sweden	
Bolivia		20th May 1954	3	9th February 1945	2½
4th February 1948	5	4th August 1955	3½	1st December 1950	3
30th August 1950	6	8th March 1956	4½	20th November 1953	2½
Brazil		19th May 1956	5½	19th April 1955	3½
2nd February 1945	6	6th September 1956	5	23rd September 1956	4
14th October 1954	8	11th January 1957	4½	Switzerland	
16th May 1955	6	Greece		26th November 1936	1½
Canada		12th July 1948	12	15th May 1957	2½
8th February 1944	1½	1st January 1954	10	Turkey	
17th October 1950	2	1st January 1955	9	1st July 1938	4
15th February 1955	1½	1st May 1956	10	26th February 1951	3
6th August 1955	2	Iceland		28th June 1955	4½
13th October 1955	2½	1st January 1948	6	6th June 1956	6
19th November 1955	2½	2nd April 1952	7	United Kingdom	
5th April 1956	3	India		26th October 1939	2
10th August 1956	3½	28th November 1935	3	8th November 1951	2½
18th October 1956	3½	15th November 1951	3½	11th March 1952	4
1st November 1956	*	16th May 1957	4	17th September 1953	3½
Ceylon		Ireland		13th May 1954	3
28th August 1950	2½	23rd November 1943	2½	27th January 1955	3½
23rd July 1953	3	25th March 1952	3½	24th February 1955	4½
11th June 1954	2½	25th May 1954	3	16th February 1956	5½
Chile		19th December 1955	4	7th February 1957	5
13th June 1935	6	26th May 1956	5	United States	
26th March 1951	8	Japan		13th August 1948	1½
1st February 1955	9	5th July 1948	5.11	21st August 1950	1½
1st January 1956	12	1st October 1951	5.84	16th January 1953	2
Costa Rica		10th August 1955	7.30	5th February 1954	1½
1st February 1930	4	20th March 1957	7.665	16th April 1954	1½
1st April 1954	5	8th May 1957	8.395	15th April 1955	1½
Denmark		Netherlands		5th August 1955	2
15th January 1946	3½	27th June 1941	2½	9th September 1955	2½
4th July 1950	4½	26th September 1950	3	18th November 1955	2½
2nd November 1950	5	17th April 1951	4	13th April 1956	2½
23rd September 1953	4½	22nd January 1952	3½	24th August 1956	3
23rd June 1954	5½	1st August 1952	3	Finland	
Finland		7th April 1953	2½	1st July 1949	5½
1st July 1949	5½	7th February 1956	3	3rd November 1950	7½
3rd November 1950	7½	25th August 1956	3½		
		22nd October 1956	3½		

* Since 1st November 1956 the Canadian Bank rate has been fixed each Thursday at ¼ per cent. above the latest average tender rate for Treasury bills. On 10th May 1957 it was 4.03 per cent.

and savings bonds and by introducing or widening the scope of special incentives (lottery prizes, tax exemptions, index clauses, etc.). The actual results of these incentive schemes are very difficult to assess, since their successes are often achieved at the expense of other forms of saving. There is no doubt, however, that they have sometimes helped to tie down funds for longer periods.

The various measures of credit restraint adopted helped to curb the expansion of the volume of credit and the money supply, although they did not succeed entirely in eliminating inflationary pressures. The table at the end of this chapter shows that the money supply, expressed as a percentage of the gross national product, increased very little in France, remained stable in Denmark, Germany, Italy and Switzerland, and actually fell in Belgium, Finland, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

In the first chapter mention was made of the fact that, up to a point, increases in the velocity of circulation of money may neutralise the relative decline in the money supply. It was also stressed, however, that the activation of money cannot go on for ever and that if the money supply is kept taut it is easier to avoid the danger of having suddenly to contend with too much money moving round too quickly.

In countries in which overdrafts represent a large proportion of the total of bank credit — and this is true of most European countries — the money supply, as currently defined, is only one component of the primary liquidity of bank borrowers, since these may also be able to take advantage of unused overdraft facilities. This second component, which is not reflected in statistics, is the more sensitive of the two to credit conditions, for when a credit squeeze is applied, as was done in the United Kingdom, its immediate effect is to reduce credit lines rather than advances, so that the volume of unused overdraft facilities (i.e. potential money) is greatly cut down and the figures for the money supply proper understate the actual contraction that has occurred.

The influence exerted on the development and composition of the money supply in various countries in the past few years by changes in the credit situation and in the foreign-payments position may be seen from the graph on the following page.

In the United Kingdom and Sweden, the implementation of credit restrictions appears to have mainly affected the liquidity of the business sector as shown by the development of deposits; a shift from deposits to currency has accordingly taken place in the composition of the money supply. Italy, on the other hand, shows a shift towards deposits, presumably owing to the fact that the Italian commercial-banking system is still at a stage of development which has already been passed in other countries.

The deviations from the trend line show the effect of domestic and balance-of-payments influences. The repercussions of the Korean conflict

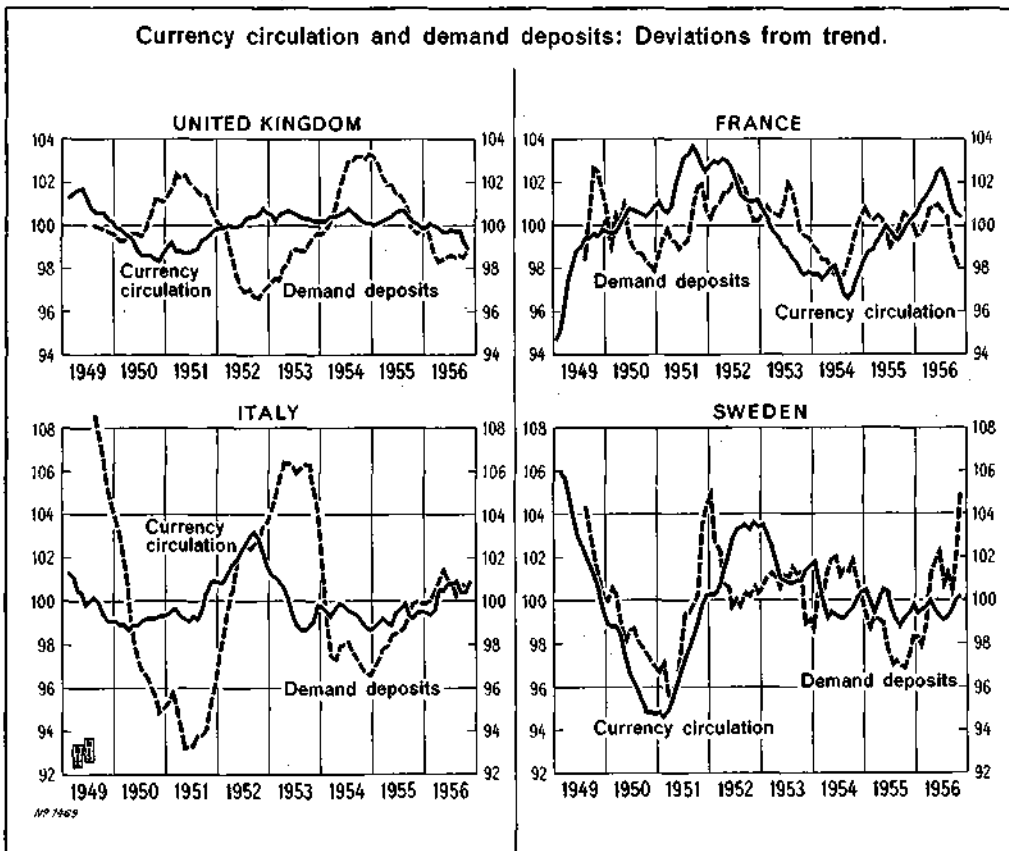
Standard deviations from trend, 1949-56.

Countries	Currency	Demand deposits
	in percentages	
Germany	2.72	4.16
Italy	1.20	4.10
Netherlands*	1.26	3.02
Sweden	2.57	2.50
United Kingdom	0.78	1.84
France	2.06	1.58
Belgium	1.45	1.54
Switzerland	1.06	1.40
United States	1.63	1.02

* 1951-56.

appear in most cases to have reduced the liquidity of households and business, while the Suez crisis did not produce any comparable effect. Ratios to the national product, at current prices, would show even greater negative deviations, since the increase in the national product was speeded up, at that time, by the boom in business activity and in prices.

Except in the United States and France, deviations from the trend line are greater for demand deposits than for currency (in the case of Sweden the two are roughly equal). For some countries, the relative deviations from the trend have been plotted in the following graph. In the United States, a dominant rôle was obviously played by domestic influences. Economic recession slowed down the expansion in the money supply both in 1949 and in 1953. The post-Korea buying spree appears to have affected mainly the liquidity of consumers, as reflected in the note issue, which at the end



of 1950 reached a cyclical low. The 1953 recession first of all affected demand deposits and then, with a certain time-lag, currency, presumably through its impact on profits and, subsequently, on employment and mass income. In 1956 tighter credit conditions slowed down the expansion of deposits.

In France, the rate of increase of the note issue slackened in 1952 and 1953, when inflation was brought under control and economic expansion marked time. Both deposits and currency reached the trough of the cyclical wave in 1954; they rose cyclically throughout 1955 and in the early part of 1956, after which they began to recede again owing to the deflationary influence of the foreign deficit.

In Italy, Sweden and Belgium, business and consumer liquidity, as reflected in the cyclical movement of deposits and the note issue, declined during the Korea boom, which in fact was marked, in its later stages, by pronounced credit stringency. The subsequent improvement in the liquidity position of these sectors during the second half of 1951 and in 1952 was especially pronounced in the case of Italy. The factors at work in that country were, as regards business, an export boom in the first part of the period, an extremely large government deficit and a reduction in investment activity; as regards consumers, the reasons were the lull in spending following the previous wave of buying and the introduction of retroactive adjustments in wages and salaries.

Large transfers of funds from demand to time deposits, owing to a change in the relationship between the interest rates allowed, were responsible for the sudden fall in demand deposits in Italy at the beginning of 1954. This same factor has been at work in more recent years in various other countries, including the United States and the United Kingdom.

The influence of the balance-of-payments situation is paramount in the case of the United Kingdom and the Netherlands. The swings in the balance of payments of the United Kingdom are mirrored in the cyclical movement of deposits. This shows two distinct waves, which reach their peaks in the spring of 1951 and the autumn of 1954 and their lowest points in the second half of 1952 and the first half of 1956. In the Netherlands, the foreign-payment difficulties of 1951 and 1956 are reflected in the decline both in deposits and in the note issue.

It needs to be emphasised once again that monetary policy cannot do everything alone — and still less so when other kinds of policy, instead of striving towards the same goal, pull in the opposite direction. It is thus a hopeful sign that in a number of countries not only those who shape budgetary policy but also the authorities responsible for the overall direction of financial affairs are increasingly coming to realise that their action, both on the taxation and the expenditure side, must — owing to the very important part played by the public sector within the economy and the consequent limitation of the field in which credit measures can make themselves immediately and fully felt — go hand in hand with credit and monetary

policy. From this point of view "public sector" has now come to mean a great deal more than "government budget". It includes the transactions of social insurance funds and of special funds outside the budget proper and also of nationalised undertakings, which, though operating in the market as private corporations, often receive special fiscal or credit privileges and/or are relieved of the necessity of making a profit, so that they are able to carry on, even when market conditions become tighter and money is made dearer, without greatly curtailing their investment programmes. Housing is another sector in which the profit motive is being either eliminated or distorted, with the result that the rate of house-building is now influenced more by budgetary measures than by credit policy.

With regard to deposits, too, there are definite limits to what higher interest rates can achieve. Thus, while they can create conditions which will induce bank depositors to tie up their funds for longer periods and also to enter the longer-term capital markets, the decisive factor influencing the formation of savings is often fiscal policy, owing to the incentives it can offer to those who choose to save and the penalties it can impose on those who consume. And this is still without taking into account the effect on total national savings of the existence of vast social welfare schemes and of the redistribution of incomes among the various social groups that has taken place since the war (as a result of full-employment policies, taxation, etc.).

Another fact worth considering is that commercial banks and the capital markets are no longer — at least in many important countries — the main sources of credit. Other types of institutions have come increasingly to the fore as suppliers of funds — such as savings and loan associations, building societies, finance companies, life assurance companies and private pension funds, not to mention a variety of state-owned or state-sponsored credit institutions designed to help to meet the financing requirements of specific economic sectors (agriculture, housing, small business, etc.).

In the United States, for example, while commercial-bank loans outstanding at the end of 1956 amounted to some \$91 milliard, life assurance funds employed in business and industry totalled more than \$77 milliard. If the funds derived from non-life insurance and private pension schemes are added, the figure easily reaches the \$120 milliard mark, and these resources are estimated to be expanding at the rate of about \$10 milliard a year. Many industrial concerns nowadays often prefer, instead of seeking bank loans or selling securities in the market, to apply directly to these institutions for money; and the same is true in the field of house mortgages, although in this sector savings and loan associations (which had over \$36 milliard of loaned funds outstanding at the end of 1956) also play a very important part.

In the United Kingdom the insurance companies and building societies together administer funds aggregating about £7 milliard, and at present their annual additional lending totals more than 10 per cent. of that amount.

The problems raised by these structural changes are beginning to attract the attention both of the business world and of the authorities. In the United Kingdom the measures announced by the Chancellor of the Exchequer in his budget speech on 9th April 1957 included the creation of a special committee whose function is to enquire into the present working of the monetary and credit system — a body somewhat resembling the "Macmillan Committee" appointed in 1929, whose report was published in July 1931. In the United States President Eisenhower, in his State of the Union Message (10th January 1957), asked Congress to authorise the appointment of a National Monetary and Financial Commission to carry out a careful study of the adequacy of existing facilities for meeting the nation's capital and credit requirements and of the means of exercising appropriate control over credit.

* * *

In the United States the year 1956 witnessed no dramatic change in the economic and monetary situation. The fears repeatedly expressed, especially in April and in August after each of the two $\frac{1}{4}$ per cent. increases in the discount rate of the Federal Reserve Banks, that the restrictive monetary policy which had been pursued since April 1955 might constitute a serious handicap to business expansion were clearly proved to have been without justification.

The money supply increased in 1956 by \$0.9 milliard, i.e. by less than 1 per cent. — a much smaller rise than that in the national product. As in the previous year, the main factors influencing the development

United States: Formation of the money supply.¹

Items	1953	1954	1955	1956	Outstanding at the end of 1956
	In milliards of dollars				
Changes in the money supply					
Currency	+ 0.6	— 0.2	+ 0.4	+ 0.1	28.4
Demand deposits	+ 0.9	+ 4.1	+ 3.4	+ 0.8	110.7
Total	+ 1.5	+ 3.9	+ 3.8	+ 0.9	139.1
Changes in corresponding items					
Gold inflow (+) or outflow (—) . .	— 1.2	— 0.3	— 0.0	+ 0.3	21.9
Credit to U.S. Government (net) ²	+ 1.8	+ 3.6	— 7.4	— 4.1	98.2
Credit to business	+ 5.0	+ 5.2	+ 14.3	+ 10.1	110.1
Holdings of non-government securities ³	+ 1.0	+ 2.1	+ 0.2	— 0.3	20.4
Total	+ 6.6	+ 10.6	+ 7.1	+ 6.0	240.6
Time deposits and other items, ⁴					
Increase (—)	— 5.1	— 6.7	— 3.3	— 5.1	— 101.5
Total (net)	+ 1.5	+ 3.9	+ 3.8	+ 0.9	139.1

¹ Transactions of the whole banking system, including Federal Reserve, commercial and savings banks.
² The banking system's holdings of U.S. Government securities minus Treasury deposits.
³ Mostly bonds of States and local authorities. ⁴ Mostly the banks' own capital and reserves.

of the money supply were the transactions of the banking system with business and its sales of Federal Government securities. In the preceding table, credit to the government appears, for 1956, as a negative figure of \$4.1 milliard, resulting from an increase of \$0.3 milliard in Treasury deposits with the banking system not counted as part of the money supply and a reduction of \$3.8 milliard in the banks' portfolios of government securities. These changes reflect the fact that the cash budget of the Federal Government showed a great improvement, changing from a deficit of \$0.7 milliard in the calendar year 1955 to a surplus of \$5.5 milliard in 1956. This surplus was used chiefly to repay public debt held by the private sector and constituted one of the most important stabilising influences in the economy in that year.

Credit to business expanded less in 1956 than in 1955, not because of any decline in business demand for credit — which was very brisk — but owing to the tight liquidity position of the banks. Even so, however, new bank credit to business exceeded \$10 milliard — representing an increase of 10 per cent. over the amount outstanding at the end of 1955. No significant influence was exercised on the money supply by movements in holdings of non-government securities or the flow of gold into and out of official stocks.

Credit granted by the commercial banks alone expanded in 1956 by \$4.3 milliard, compared with \$4.6 milliard in the previous year; their loans increased less in 1956 than in 1955, but the reduction in their holdings of government securities was also smaller.

United States: Loans and security holdings of commercial banks.

Items	Increase in			Outstanding at the end of 1956
	1954	1955	1956	
in milliards of dollars				
Loans				
Business	- 0.3	6.4	5.5	38.7
Real estate	1.7	2.4	1.8	22.6
Consumer	0.0	2.3	1.5	14.7
Security	0.9	0.6	- 0.7	4.3
Agricultural	0.2	- 0.7	- 0.3	4.2
Other	0.6	0.9	0.4	6.9
Total loans*	2.9	11.6	7.8	99.8
Security holdings	7.2	- 7.0	- 3.5	74.8
Total credit*	10.2	4.6	4.3	164.6

* Totals may not add up because of rounding and the deduction of valuation reserves.

While in 1955 loans for the purchase, or carrying of securities rose by \$0.6 milliard, in 1956 they fell by \$0.7 milliard. Agricultural loans declined still further, though less than in 1955, and new real-estate and consumer loans were well below the levels reached in the previous year. Loans to business proper rose by \$5.5 milliard in 1956, or by nearly 17 per cent.

As in 1955, the overall increase in loans was made possible by the sale of government and other securities, the commercial banks' holdings of which were reduced by some \$3.5 milliard. Government securities were sold, however, not only by the banks but also by insurance companies and other financial institutions and by non-financial corporations.

United States: Ownership of government securities.

Items	Change in				Outstanding at the end of 1956	
	1953	1954	1955	1956	Actual amount	In percentages
	in milliards of dollars					
Securities held by the public						
Banks (Federal Reserve, commercial and mutual savings)	+ 1.2	+ 4.1	- 7.6	- 3.0	92.3	33
Insurance companies	- 0.3	- 0.8	- 0.7	- 1.5	12.8	5
Corporations (non-financial)	+ 1.7	- 1.8	+ 4.2	- 5.2	18.8	7
Individuals	- 0.4	- 1.7	+ 1.8	+ 2.1	67.0	24
State, local authorities and miscellaneous investors	+ 3.1	+ 2.4	+ 2.4	+ 1.0	31.7	11
Total*	+ 5.3	+ 2.3	- 0.1	- 6.4	222.7	80
Securities held by U.S. Government agencies	+ 2.4	+ 1.3	+ 2.1	+ 2.3	54.0	20
Grand total*	+ 7.8	+ 3.6	+ 2.0	- 4.1	276.7	100

* Figures do not always add up to totals because of rounding.

Total sales by the three sectors just mentioned amounted to \$9.7 milliard, and it was only because of sustained purchases by individual investors, local authorities and U.S. Government agencies and, not least, because of the reduction of \$4.1 milliard in the total of the public debt and of \$6.4 milliard in that part of it which is held by the public that the resultant fall in market quotations was not much greater.

In 1956 corporate business borrowed more funds from banks and other credit institutions than in 1955, raised more money by security issues in the capital market, and — contrary to what happened in 1955 — had to reduce its liquid resources (cash and holdings of government securities) by \$5 milliard. This change in the liquidity position of corporate business is one of the most striking developments revealed by the following table, which shows the sources and uses of the funds obtained by non-financial corporations.

In 1956 the total of the funds used by corporate business was \$44 milliard. This is nearly \$10 milliard more than in 1955 and twice the amount used in 1954. Both gross fixed investment and stocks rose considerably, as did also net receivables, i.e. credit granted to customers minus credit received from suppliers. In view of this rapid rise in its financing needs corporate business had to take up more external funds than in the previous year and was obliged at the same time to draw on the liquidity reserves built up in 1955, which largely reflected an increase in tax reserves that was not repeated in 1956.

United States: Sources and uses of corporate funds.

Items	1953	1954	1955	1956
	in milliards of dollars			
Sources of funds				
Internal				
Retained profits	6.5	5.7	8.8	6.0
Depreciation allowances	11.8	13.3	14.8	16.5
Total internal funds	18.3	19.0	23.6	24.5
External				
Bank and mortgage loans	0.5	— 0.9	4.4	6.0
Capital-market issues (net)	7.1	5.9	7.0	8.0
Tax reserves, etc.	2.5	— 2.8	4.4	0.5
Total external funds	10.1	2.2	15.8	14.5
Total sources of funds	28.4	21.2	39.4	39.0
Uses of funds				
Gross fixed investment	23.9	22.4	24.2	30.0
Increase in stocks	1.5	— 2.3	4.6	6.0
Net receivables	0.7	2.0	4.9	6.0
Other assets	0.2	0.1	0.9	2.0
Total uses of funds	26.3	22.2	34.6	44.0
Changes in liquidity position (cash and holdings of government securities)	+ 2.1	— 1.0	+ 4.8	— 5.0

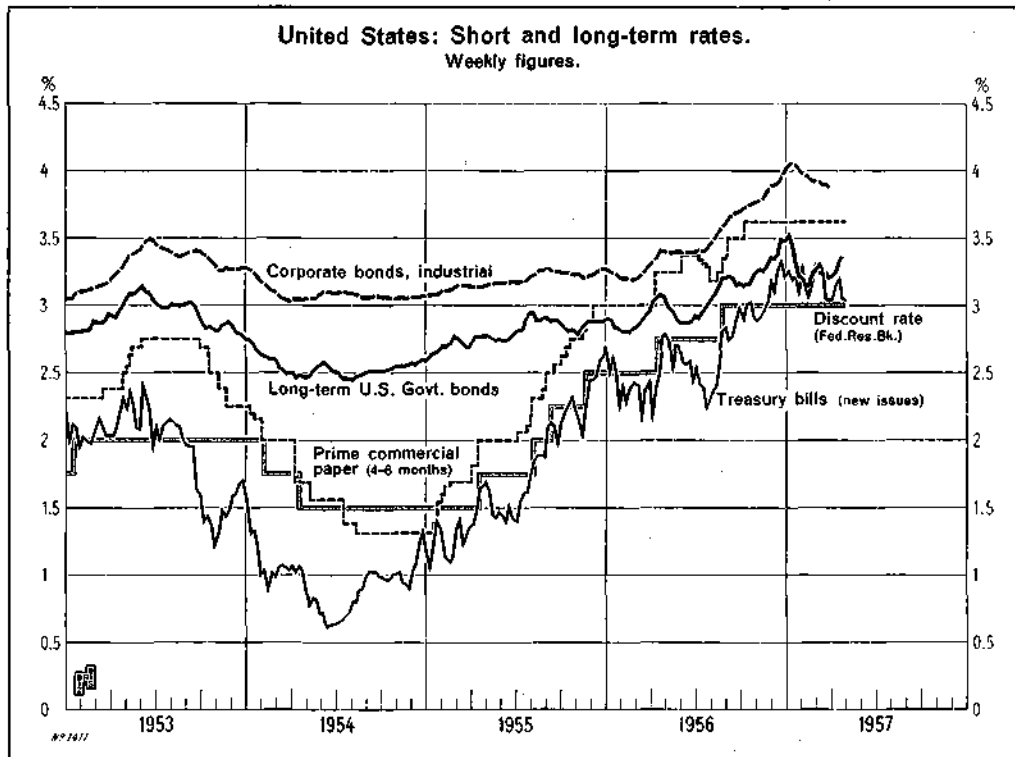
In many industries both profit margins and total profits are being reduced by rising wage costs and this state of affairs tends to lead partly to an expansion in existing capital equipment and partly to a shift from expansion to "rationalisation". It is possible, therefore, that investment in plant and equipment will again show an increase in 1957, though a smaller one than in 1956. As it seems unlikely that corporate business will be able to obtain more external finance than in 1956, it may be obliged to spend less on the building-up of stocks and perhaps also to reduce the amount of credit granted to customers.

With regard to the policy pursued by the monetary authorities in 1956, there is no doubt that, given the strength of inflationary pressures, the Federal Reserve had no alternative but to maintain credit restraint. In this action it was helped by the reduced liquidity of the banks, financial institutions and business, which made the economy more sensitive to a further tightening of credit conditions and a raising of the cost of credit.

Thanks also to the cash surplus in the Federal budget, the monetary authorities did not change the minimum-reserve ratios fixed in the summer of 1954, nor did they engage in open-market operations to any significant extent. The Federal Reserve thought it desirable on occasion, when seasonal factors were in operation, to ease the degree of pressure, but this does not

alter the fact that it limited its facilities in such a way as not to provide the funds that would have been necessary to make supply equal demand at the prevailing interest rates.

The resulting scarcity of funds as the demand for credit exceeded the flow of savings brought about a further rise in the velocity of circulation of money and in interest rates. The Federal Reserve acted in accordance with the verdict of the market by raising the official discount rate in two stages, on 13th April and 24th August 1956, each time by $\frac{1}{4}$ per cent., to, finally, 3 per cent.



The upward movement of interest rates, which had started in the middle of 1954, was still in progress in 1956 and in fact continued throughout the year, by the end of which most rates had reached a post-war peak. Whereas in 1955 short-term rates more than doubled, while long-term rates rose by only about $\frac{1}{4}$ per cent., in 1956 both sets of rates moved almost parallel to each other, so that the spread of rates at the end of 1956 was approximately the same as it had been one year before. In the first quarter of 1957, despite the refunding operations undertaken in February by the Treasury involving securities to the value of \$12.5 milliard, there was at first some weakening in the rates on Treasury bills and long-term bonds. Later, however, these rates stiffened again under the pressure of sales in connection with the mid-March tax payments. The rate charged on Federal funds — that is, the rate at which banks holding excess reserves with the Reserve

Banks are prepared to lend them from day to day to banks and others who may be short of funds — has, in view of the tight reserve position of the banks, remained almost constantly at the ceiling represented by the official discount rate of 3 per cent.

In the United Kingdom the long series of "above-the-line" budget surpluses and of deficits in the overall budget (which includes "below-the-line" payments) was continued in the financial year 1st April 1956 to 31st March 1957. The overall deficit was £331 million, which is very close to the original estimates of £343 million but was the result of a shortfall of £170 million in the surplus "above the line" and a decline of about £180 million in net payments "below the line". In the financial year 1956-57 the budget for the first time made provision for the capital needs of all nationalised

United Kingdom: Government finances.

Items	Financial year			
	1954-55	1955-56	1956-57	1957-58
	Actual		Original estimates	
in millions of £ sterling				
"Above the line"				
Revenue				
Inland revenue	2,541	2,539	2,705	2,680
Customs and excise	1,872	2,013	2,101	2,158
Other revenue	325	341	352	360
Total	4,738	4,893	5,158	5,198
Expenditure				
Civil	2,204	2,347	2,519	2,461
Defence	1,436	1,405	1,525	1,499
Consolidated fund	665	744	824	778
Total	4,305	4,496	4,868	4,738
"Above-the-line" surplus	+ 433	+ 397	+ 290	+ 460
"Below the line"				
Net payments				
Loans to local authorities	328	297	67	176
Loans to the Coal Board	67	78	26	63
Loans to other nationalised industries	284	350
Other payments	106	163	244	214
Total net "below-the-line" payments	501	538	621	803
Overall deficit	- 68	- 141	- 331	- 125

industries, which previously, apart from those of the coal industry, had been met by the placing of government-guaranteed issues on the market. This had meant, in past years, that even though no provision had been made in the budget, the government had had in fact to supply whatever part of the capital needs of these industries had not been covered by genuine subscriptions on the market. The British Government was thus often obliged to find funds

in excess of what it needed to cover the overall budget deficit. This was no longer the case in 1956-57.

The methods of financing the overall budget deficit, which determined the amount of funds the government had to raise — apart from the need to refinance an issue of stock which matured in August 1956 — differed in two main respects from those used in 1955-56. Firstly, net receipts from national savings — savings certificates, premium savings bonds and deposits with Post Office and Trustee Savings Banks — and from tax reserve certificates came to over £100 million, whereas in the previous year these items had together resulted in a net disbursement. Secondly, very considerable sterling receipts accrued to the government in 1956-57 as a counterpart of the loss of exchange reserves. Receipts from these sources and from the sale of medium and long-term government bonds to the market were substantially greater than was necessary to cover the overall budget deficit, so that there was a considerable net reduction in the floating debt, primarily in the form of a decrease in the amount of Treasury bills outstanding.

The volume of outstanding Treasury bills was reduced by almost £600 million, but the British financial statistics do not make it possible to determine with certainty whether this decrease was entirely accounted for by a decline in the amount of Treasury bills outstanding in the market or whether it was to any extent contributed to by a cancellation of Treasury bills in departmental hands (e.g. held by the Exchange Equalisation Account) at the beginning of the year. Treasury bills to the value of £450 million were in fact returned to the Exchequer by the Exchange Equalisation Account. At least a large proportion of this amount must, however, have had a counterpart in a reduction in the volume of Treasury bills outstanding on the market, as the sterling proceeds of sales of gold and foreign exchange are certain to have been used to reduce the total of Treasury bills offered on the market. These developments constituted an important step in the lengthening of the life of the public debt and at the same time helped to skim off the market short-term Treasury paper which, in the period under review, was held mainly outside the banks and the discount market and could very easily have been monetised.

The composition of the assets of the London clearing banks has not been greatly affected by the change in the structure of the public debt. In fact, the main feature of their accounts for the twelve-month period ended mid-March 1957 is the smallness of the changes shown.

Deposits increased by £68 million, or by a little over 1 per cent.; credit to the public sector declined, though by no means as much as in the previous twelve-month period. There was, on balance, no change in the banks' holdings of longer-term government securities. This, however, was the result of two contrary movements: the continuation of sales of securities up to August 1956 and the resumption of purchases from September 1956 onwards. Credit to the private sector (including the nationalised industries)

London clearing banks:
Changes in selected items from the monthly returns.

12-month period from mid-March	Liabilities	Assets						
	Net deposits	Public sector				Private sector		
		Money at call and short notice	Treasury bills	Investments	Total	Advances*	Bills	Total
in millions of £ sterling								
1952-53	+ 158	- 54	+ 277	+ 187	+ 410	- 148	- 107	- 255
1953-54	+ 188	- 4	+ 40	+ 147	+ 183	- 38	+ 14	- 24
1954-55	+ 129	- 30	- 146	+ 12	- 164	+ 264	+ 33	+ 297
1955-56	- 311	- 11	+ 97	- 288	- 202	- 119	+ 7	- 112
1956-57	+ 68	+ 19	- 31	+ 0	- 12	+ 71	+ 22	+ 93
Amount outstanding at mid-March 1957	5,896	446	915	1,993	3,354	1,976	145	2,121

* Including advances to nationalised industries.

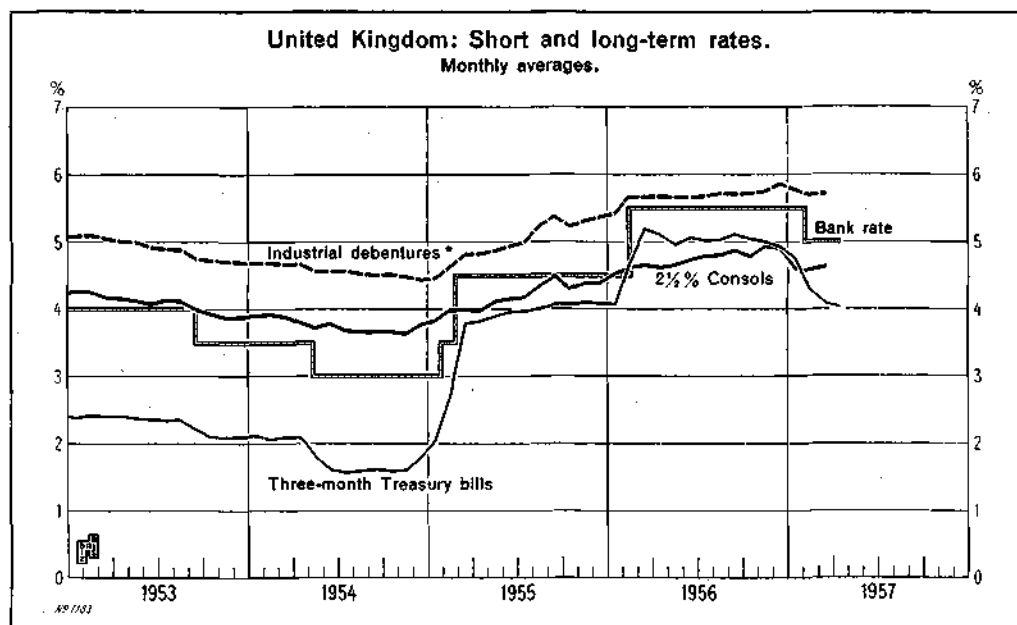
rose by £93 million (i.e. 4½ per cent.), of which £71 million was accounted for by advances. Advances to certain groups of borrowers, however, such as the metal, engineering and shipbuilding industries, rose by nearly £80 million (which represents an increase of about one-third), whereas advances to the sectors concerned mainly with consumer goods and to the building and building-materials sector were considerably squeezed; personal and professional advances also fell by a substantial amount.

By mid-March 1957 the ratio of the London clearing banks' liquid resources to their total deposits had fallen to 32.6 per cent. This percentage is still well above the now generally recognised minimum level of 30 per cent., but it is slightly lower than the figure recorded one year earlier and very much below the exceptionally high level reached in the immediately preceding months — notably in December, when it was 37.5 per cent.

The policy pursued in 1956 was a disinflationary one designed to improve the current-account balance of payments and to stabilise prices by reducing consumer more than investment demand. The measures of monetary restraint introduced in 1955 (see pages 40-43 and 173-174 of the Twenty-sixth Annual Report), which included increases in Bank rate and in other officially fixed rates (i.e. those allowed on tax reserve certificates and those charged by the Public Works Loan Board), a tightening of the conditions governing hire-purchase and an exhortation to the banks to cut down advances, were reinforced early in 1956 when Bank rate was increased once more (from 4½ to 5½ per cent.), hire-purchase terms were made still more severe and the limit for exemption from the Capital Issues Committee's scrutiny of new issues and loans was lowered from £50,000 to £10,000. At the same time certain fiscal measures were taken; these included increases in the profits tax and the tobacco tax, tax exemption in respect of a portion

of income on savings and of provision made by self-employed persons for their retirement, the withdrawal of the investment allowance introduced in 1954, cuts in certain price subsidies (on food and housing) and a curtailment of the investment programmes of public corporations and local authorities, together with changes in the methods of their financing.

When on 16th February 1956 Bank rate was raised by 1 per cent., short-term rates, mainly those on Treasury and commercial bills, rose even more, reaching a level above that of long-term rates on government securities.



Longer-term rates went on rising until November 1956, when there was considerable activity in the market for gilt-edged securities and yields began to decline; short-term rates had started to fall a few months earlier, so that at the turn of the year the whole interest-rate structure was moving downwards — shorter-term rates once again leading the movement, which soon (on 7th February 1957) was given official recognition by the reduction of Bank rate from 5½ to 5 per cent.

The downward movement of the interest-rate structure as a whole ceased, however, at the time Bank rate was reduced. Bill rates and, to a lesser extent, other short-term rates continued to fall — though they stiffened somewhat in April — but the fall in medium and long-term rates came to a halt and they have, indeed, risen slightly since February. A few days after the reduction in Bank rate, an issue of £300 million of long-dated government stock, maturing between 1999 and 2004 (the so-called eternity stock) was made on terms strictly in line with those prevailing in the market at the time.

New capital issues, excluding government issues, in 1956 amounted to £296 million, little more than half the figure for 1955, the fall being entirely due to the fact that the nationalised industries, which in 1955 had floated loans totalling £297 million, were out of the market in 1956 as a result of the government's decision to provide them directly, as already mentioned, with the funds they required for investment. During the calendar year 1956 government lending to the nationalised industries amounted, in fact, to £265 million. The local authorities, on the other hand, had been asked in October 1955 to borrow the amounts they needed, whenever possible, from the market rather than from the Public Works Loan Board, and consequently their net borrowing from the latter fell from £413 million in the calendar year 1955 to £88 million in 1956. The local authorities' investment outlay was not, however, reduced, so that they had to have more recourse to issues in the capital market (from which they borrowed £45 million more in 1956 than in 1955) and also to other sources of long-term finance — mostly mortgage and insurance institutions.

In presenting his budget estimates for the financial year from 1st April 1957 to 31st March 1958, which show a big decrease in the overall deficit, the Chancellor of the Exchequer declared that a modest start could be made towards a reduction of the burden of taxation and expressed the hope that the budget would help to strengthen the balance of payments and the stability of the economy. The proposed tax reliefs will total £98 million in the financial year 1957-58 and £130 million in a full year. They apply to incomes of up to £10,000, direct taxation on which has been made somewhat less progressive; to indirect taxes on many kinds of household goods and on entertainment; to income earned abroad by British companies; and to fuel duties. The investment allowance for capital expenditure on ship construction has been doubled.

With regard to monetary policy the Chancellor stressed that both the banks and the Exchequer had their part to play in this field, but that today's problems were not the same as those of 1931, when it had been a question of finding a way to pump more credit into the economy. Moreover, changes in the structure of the banks' assets had made them less susceptible to monetary pressure. These and other reasons had led the authorities to decide on the creation of a committee (under the chairmanship of Lord Radcliffe) "to enquire into the working of the monetary and credit system and to make recommendations", taking into account the great influence now exerted upon the credit system by the public finances and the need to maintain a high level of savings and investment.

Monetary developments in France in the course of 1956 and the early months of 1957 should be considered in the light of the continuing marked economic expansion, the bad harvest, the increasingly heavy burden of government expenditure, both civil and military, and, in a large measure as a result of all this, the disquieting change in the foreign exchange position.

The money supply expanded in 1956 by Fr.fcs 616 milliard, or 10 per cent. This is a lower rate of expansion than in the previous year, when the increase was nearly 13 per cent., but it is still somewhat higher than the rate of growth of the national income. However, some most striking changes took place among the factors responsible for variations in the money supply. First of all, there was the loss of gold and foreign exchange, which appears in the accounts of the Bank of France as a fall of Fr.fcs 294 milliard in the corresponding items of the assets and which practically offset the increase which occurred in 1955.

France: Formation of the money supply.

Items	1953	1954	1955	1956	Outstanding at the end of 1956
	in milliards of French francs				
Changes in the money supply					
Currency	+ 185	+ 245	+ 327	+ 271	3,181
Demand deposits	+ 285	+ 395	+ 344	+ 345	3,404
Total	+ 470	+ 640	+ 671	+ 616	6,585
Changes in corresponding items					
Bank credit to public authorities	+ 260	+ 167	+ 6	+ 186	2,414
to the economy*	+ 247	+ 341	+ 439	+ 725	4,024
Total credits	+ 507	+ 508	+ 445	+ 911	6,438
Gold and foreign exchange	- 11	+ 169	+ 301	- 294	401
Other items (net)	- 26	- 37	- 75	- 1	- 254
Grand total	+ 470	+ 640	+ 671	+ 616	6,585

* Including the nationalised industries.

The immediate effect of the loss of external reserves was a sharp reduction in the liquidity of all sectors of the economy. The French economy (including the nationalised enterprises) had to rely heavily on the banks, from which they obtained new credits amounting to Fr.fcs 725 milliard, compared with Fr.fcs 439 milliard the year before. In 1955 and 1956 the volume of outstanding bank credit to the economy increased by 15 and 22 per cent. respectively. In 1955 the public authorities (mostly the Treasury) had had no recourse to the banking system, the inflow of foreign exchange having created liquidity surpluses which found their way into Treasury deposit accounts and led to purchases of Treasury bills. In 1956, on the other hand, the public authorities had to draw on bank resources to the extent of Fr.fcs 186 milliard. New bank credit in 1956 amounted in all to Fr.fcs 911 milliard, a figure more than double that for 1955.

There were two additional reasons in 1956 for the reduction in the liquidity of the credit institutions. Firstly, in July the regulations regarding the banks' minimum holdings of short-term government securities were stiffened by the raising of the ratio which has to be maintained between

such holdings and total deposits from 20 to 25 per cent., so that the banks' liquidity was reduced by some Fr.fcs 80 milliard. Secondly, in September deposits were drawn away from the banks by public subscriptions for about Fr.fcs 350 milliard's worth of bonds of a 5 per cent. index-tied government loan.

All these contractive factors were only partly offset by the large inflow of funds from North Africa, which is estimated, in the "Comptes de la Nation", to have amounted to about Fr.fcs 300 milliard in 1956, compared with Fr.fcs 140 milliard in the previous year. The banks had to refinance at the Bank of France a very large proportion of the newly-granted credit to the economy, and at the end of every month from the beginning of the autumn onwards rediscounts rose above the fixed ceilings and became subject to the penalty rate of 2 per cent. charged over and above the official rate of 3 per cent. Of the Fr.fcs 725 milliard of new bank credit granted to the economy, Fr.fcs 575 milliard, i.e. nearly four-fifths, was passed on to the central bank, mostly by way of the rediscounting of medium-term paper relating to housing and investment loans, which, together with credit to agriculture, is not affected by the rediscount ceilings.

France: New bank credit to the economy.

Items	1953	1954	1955	1956	Outstanding at the end of 1956
	in milliards of French francs				
Short-term bank credit	+ 132	+ 192	+ 280	+ 446	2,900
Medium-term bank credit	+ 115	+ 149	+ 159	+ 279	1,124
Total	+ 247	+ 341	+ 439	+ 725	4,024
Refinanced at the Bank of France . .	+ 54	+ 124	+ 140	+ 575	1,837

Outstanding medium-term credit provided by the banks amounted at the end of 1956 to Fr.fcs 1,124 milliard, having increased in that year by Fr.fcs 279 milliard, or one-third. Of the total, Fr.fcs 1,036 milliard was in the portfolio of the central bank and only Fr.fcs 88 milliard in those of the other banks. This marked expansion in medium-term rediscounting in 1956 was due to the inability of the special credit institutions (the "Crédit Foncier", the "Caisse des Dépôts et Consignations", etc.), which normally provide such credits, to supply the necessary funds, since so much of the savings they received was used for other purposes, including the granting of credit to the Treasury.

New monetary savings are estimated to have risen between 1955 and 1956 from Fr.fcs 841 to 1,072 milliard. It is likely that the increase was due, at least in part, to the flow of funds from North Africa.

In 1956 the increase in the volume of savings held in liquid form was considerably less than in 1955, while the volume of new funds flowing to the capital market more than doubled. This shift was the result, in particular,

France: New monetary savings.

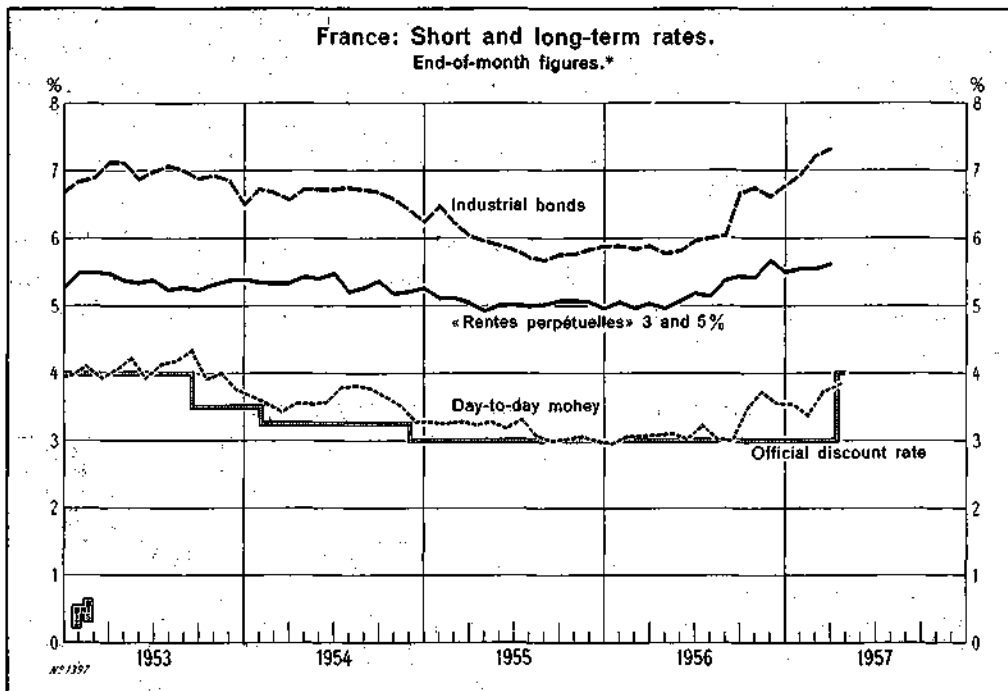
Items	1953	1954	1955	1956
	in milliards of French francs			
Liquid savings				
Increase in time and savings deposits	225	251	318	248
Increase in reserves of life insurance companies	57	75	89	102
Short-term Treasury paper bought by the public	88	174	159	86
Total of liquid savings	370	500	566	436
Capital-market issues by				
Public authorities	93	192	163	485
Nationalised industries	62	70	49	90
Private business	96	137	210	214
Total capital-market issues (gross). . .	251	399	422	789
Less: repayments and double entries	51	64	147	155
Net invested savings	200	335	275	634
Total new monetary savings	570	835	841	1,072

of the very large subscriptions to loans issued by the public authorities. Among these issues the 5 per cent. government loan already referred to stands out not only because of the amount subscribed but also because of the special privileges attached to it; these include various fiscal concessions, such as exemption for five years from the progressive surtax, and an index clause by which its redemption value is tied to the average of quotations for shares and bonds on the Paris stock exchange. The purpose of the issue — to cover military expenditure in Algeria without imposing new taxes — and the terms offered were among the reasons for its success.

In 1956 the Bank of France maintained, almost without change, the rediscount ceilings fixed for each bank and also the penalty rate (2 per cent. above the official discount rate of 3 per cent.) charged for the temporary use of facilities beyond that ceiling. Towards the middle of 1956, in order to help the Treasury to meet its immediate requirements and, at the same time, to curb the excessive expansion of credit, the regulations concerning the banks' minimum holdings of government securities were tightened, as has already been mentioned. Instalment credit was made subject to stricter rules and new regulations were issued fixing the maximum rates allowable, as from 1st November 1956, on deposits received by the banks.

Interest rates in the money and capital markets continued to decline up to the summer of 1956, when, owing to the fall in the banks' liquidity, a reversal of the trend set in. Between December 1955 and December 1956 the rate for day-to-day money rose by $\frac{1}{2}$ per cent. to well above the official discount rate. The yield of long-term government and industrial bonds rose by about $\frac{1}{2}$ and 1 per cent. respectively.

During the first quarter of 1957 the loss of external reserves continued, and this, together with new issues of securities by the public authorities,



* For day-to-day money, monthly averages.

caused the market to become increasingly tight. The banks, whose rediscount potential had been reduced to only Fr.fcs 143 milliard at the end of 1956 compared with Fr.fcs 431 milliard at the end of 1955, were constantly having recourse to the central bank, and were above their rediscount ceilings by the end of each month. This meant that the 5 per cent. penalty rate was increasingly applied and acted, within certain limits, as a de facto increase in the official discount rate.

No surprise was felt, therefore, when on 12th April 1957 the Bank of France raised its discount rate from 3 to 4 per cent. and the lombard rate from 4½ to 6 per cent. Even though the former rate of 3 per cent. is still applied to the rediscounting of export credits and to short-term Treasury paper, this change, coming after two and a half years of rigid official rates, shows the authorities' determination to safeguard the stability of the currency while reducing the difference between French rates and those applied abroad and, internally, also narrowing the gap which had developed during the previous half-year between rates on the money market and those on the capital market. Under the programme for cutting down internal demand, instalment credit has been still further restricted and the banks' minimum charges on their advances have been raised by 1 per cent. The penalty rate of 2 per cent. above the official discount rate for rediscounting above the ceiling has been left unchanged, but only when the amount in question is not more than 10 per cent. above the ceiling. Beyond this limit higher penalty rates fixed by the governor of the central bank will be applied.

In the Federal Republic of Germany, for the first time in many years, the money supply increased less than the national product, having gone up by 7.4 per cent., compared with a rise of 9.9 per cent. in the gross national product. In absolute figures, the money supply expanded by DM 2.1 milliard to DM 31.2 milliard. Sight deposits rose more than the note circulation both in absolute and in relative terms.

Whereas in 1955 the public authorities taken as a whole had been borrowers, in 1956 they supplied the German credit system with a net amount of DM 200 million, and by the end of the year their outstanding claims (deposits) equalled their debt to the credit institutions.

Germany: Formation of the money supply.

Items	1953	1954	1955	1956	Out- standing at the end of 1956
	in milliards of Deutsche Mark				
Changes in the money supply					
Currency	+ 1.1	+ 0.8	+ 1.3	+ 0.8	14.9
Sight deposits (private)	+ 1.0	+ 2.2	+ 1.4	+ 1.3	16.3
Total	+ 2.1	+ 3.0	+ 2.7	+ 2.1	31.2
Changes in corresponding items					
Credit to public authorities (net)	- 0.9	- 0.3	+ 1.5	- 0.2	0.0
to the private economy	+ 8.8	+ 11.3	+ 12.3	+ 8.6	74.4
Total credit	+ 7.9	+ 11.0	+ 13.8	+ 8.4	74.4
Gold and foreign exchange	+ 3.5	+ 2.9	+ 1.9	+ 4.6	17.2
Other Items	+ 0.1	+ 1.3	- 1.4	- 0.7	6.2
Total	+ 11.5	+ 15.2	+ 14.3	+ 12.3	97.8
Increase (-) in savings deposits and other longer-term funds	- 9.4	- 12.2	- 11.6	- 10.2	- 66.6
Grand total	+ 2.1	+ 3.0	+ 2.7	+ 2.1	31.2

Bank credit to the private economy continued to expand in 1956, but at a much slower pace than in previous years. New credit granted by the banks amounted to DM 8.6 milliard in 1956, compared with DM 12.3 milliard in 1955; in percentage terms it increased by 13 and 23 per cent. respectively. Total new credit in 1956, including credit to the public authorities, actually amounted to only DM 8.4 milliard (DM 13.8 milliard in 1955), and its monetary effect was more than offset by DM 10.2 milliard of savings deposits and other longer-term funds received by the credit system, which also served to offset a large part of the liquidity created by the addition of DM 4.6 milliard to Germany's net holdings of gold and foreign exchange.

A more detailed picture of the flow of funds, both public and private, into and out of the German credit system is given in the table on the following page.

Germany: Funds received and credit granted by all credit institutions.

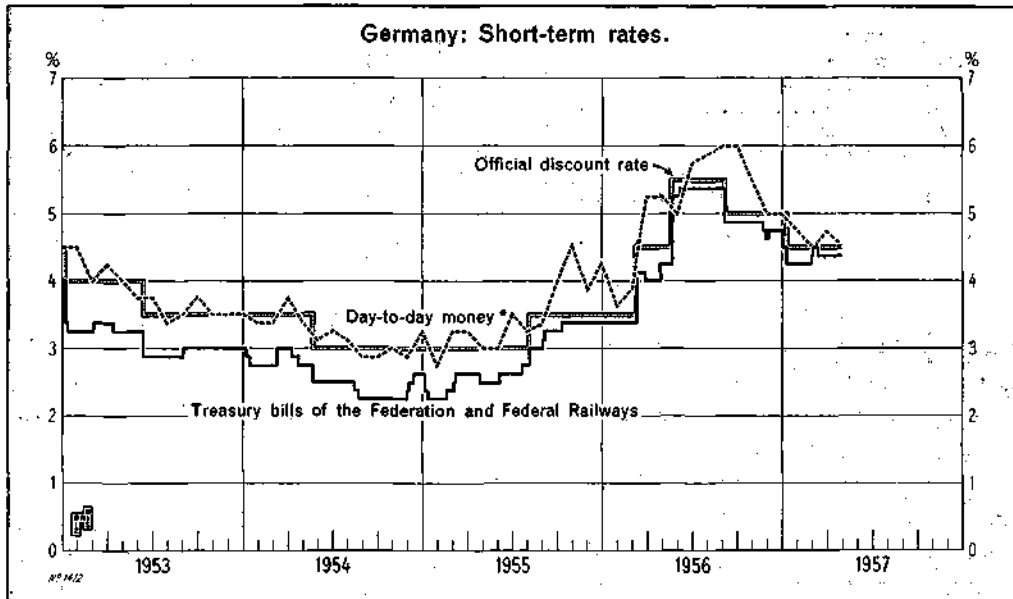
Items	1953	1954	1955	1956	Out- standing at the end of 1956
	in milliards of Deutsche Mark				
Funds received					
At sight	2.4	3.7	2.5	2.7	26.0
At longer term	10.6	12.6	11.1	10.5	71.3
Total of funds received . . .	13.0	16.3	13.6	13.2	97.3
Credit granted by					
The central-banking system	- 0.1	- 0.1	0.3	- 0.2	0.8
Other credit institutions					
At short term	2.7	3.3	2.6	1.7	31.4
At medium and long term	6.8	7.7	9.9	8.4	48.9
Purchase of securities	1.1	2.1	1.7	0.2	6.6
Total for other credit institutions	10.6	13.1	14.2	10.3	86.9
Total of credit granted	10.5	13.0	14.5	10.1	87.7

By the end of 1956 nearly three-quarters of the DM 97.3 milliard of funds received by the credit institutions consisted of "longer-term" funds, and the total amount of credit granted, at DM 87.7 milliard, was nearly DM 10 milliard less than that of funds received. In 1956 new funds received by the credit institutions exceeded newly-granted credit by DM 3.1 milliard, thus re-establishing a pattern which had been interrupted in 1955, when lending exceeded the receipt of new funds by DM 0.9 milliard. This shift from 1955 to 1956 explains the changes which took place in the liquidity of the German credit institutions, and also the various credit measures taken by the Bank deutscher Länder.

At the beginning of 1955 the degree of liquidity of the credit institutions was relatively high. The average ratio fixed for the minimum-reserve requirements, at around 7 per cent., was the lowest since the monetary reform in 1948, and at 3 per cent. the official discount rate was also at its lowest level. In view of the continuing surplus in the country's balance of payments and of a brief change from surplus to deficit in the public authorities' cash position, the Bank deutscher Länder took various steps to reduce the banks' capacity to lend. These included open-market sales of securities (nearly DM 650 million in the first half of 1955), a rearrangement of rediscount quotas (early in 1955), the raising of the official discount rate by ½ per cent. to 3½ per cent. (August 1955), and an increase of 1 per cent. in the minimum-reserve ratio to an average of nearly 8 per cent. The last-named measure alone sterilised, at the time when it was taken, about DM 500 million of loanable funds.

Between April 1955 and March 1956 the credit institutions' recourse to the central-banking system increased by DM 3.3 milliard to DM 4.9 milliard. The Bank deutscher Länder then again raised its official discount rate, first of all on 8th March by 1 per cent. to 4½ per cent. and later (on 19th May)

by a further 1 per cent. to $5\frac{1}{2}$ per cent. These increases were soon reflected in market rates — and especially in the cost of credit to borrowers, who were charged 11 per cent. or more on overdrafts — and caused a slowing-down of the credit expansion which, combined with the effects of an increasing inflow of foreign exchange, considerably improved the liquidity of the credit system. Between April and December 1956 the credit institutions' balances with the central-banking system increased by DM 1.7 milliard, while their borrowing from it fell by DM 2 milliard.



* Highest rate of the month.

In view of the changed situation and also in order to discourage the inflow of foreign capital, the Bank deutscher Länder twice lowered the official discount rate — on 6th September 1956 and on 11th January 1957, each time by $\frac{1}{2}$ per cent., to, finally, $4\frac{1}{2}$ per cent. As in the United Kingdom, the reductions in the discount rate were not meant to be interpreted as giving the "all clear" for an increase in lending. On 1st May 1957 the minimum-reserve ratios were raised (by 1 per cent. for domestic deposits) and the rediscount ceiling was lowered (by 15 per cent.), the rediscount quotas of the various institutions being further reduced by the amount of funds borrowed abroad except when these serve the purpose of financing imports or transit trade.

Along with the reduction in new bank credit granted to the economy there was also a decline in 1956 in the amount of securities issued in the capital market. At DM 4.4 milliard, the total was DM 0.8 milliard lower than in the previous year. There was, however, a striking shift away from communal, mortgage and similar issues to industrial issues — especially of shares — which represented about 55 per cent. of all issues. Up to 1954 all fixed-interest-bearing securities issued enjoyed total or partial tax exemption.

In 1955 privileged issues represented less than 30 per cent. of the total and in 1956 the yield of practically all new issues was subject to income or corporation tax at the full rates. At the end of 1956 and early in 1957, notwithstanding the reduction in money-market rates, the prices of fixed-interest-bearing securities continued to be very weak, and new industrial and local-authority issues were made on terms corresponding to a yield of about $8\frac{1}{4}$ per cent.

A large increase in exports and in net receipts from tourist traffic in 1956 reversed Austria's balance-of-payments position, an overall deficit of Sch. 1.4 milliard in 1955 having been replaced last year by a surplus of equal amount. The full amount of the shift which took place in the gold and foreign exchange holdings is not apparent from the balance sheet of the Austrian National Bank owing to the fact that in 1955 gold not previously recorded was included in the balance sheet and that in 1956 some of the foreign exchange accruing was retained by the commercial banks.

Austrian National Bank: Main assets and liabilities.

End of	Liabilities			Assets		
	Note circulation	Deposits of banks	Deposits of public authorities and others	Gold and foreign exchange	Trade bills and advances	Treasury bills and certificates
	round figures, in millions of schillings					
1953	10,470	1,540	2,780	7,060	460	590
1954	12,250	2,620	2,280	9,670	280	100
1955	13,030	2,150	1,940	9,270	1,790	410
1956	14,260	2,100	2,070	10,470	2,180	400
Changes in 1955	+ 780	- 470	- 340	- 400	+ 1,510	+ 310
1956	+ 1,230	- 50	+ 130	+ 1,200	+ 390	- 10

The counterpart of the increase in monetary reserves was an expansion in the note circulation, which rose in 1956 by Sch. 1.2 milliard, or nearly 10 per cent. The credit institutions had recourse to the central bank (by the withdrawal of deposits and by borrowing) to the extent of only Sch. 440 million, compared with about Sch. 2 milliard in 1955.

The new credit granted in 1956 by the Austrian credit institutions amounted, in fact, to only Sch. 2,940 million, or Sch. 1,050 million less than in 1955. At the same time the total of new deposits increased from Sch. 1,860 million to Sch. 3,020 million, leaving a small surplus of new deposits over credit granted.

The measures of credit restraint taken in 1955 to check the excessive rate of economic expansion — including two increases in the official discount rate, which raised it from $3\frac{1}{2}$ to 5 per cent. — produced quick results. The growth of the national product, in real terms, has certainly slowed down (from 11 per cent. in 1954 and 1955 to 5 per cent. in 1956) but has nevertheless

Austria: New deposits and credit granted by all credit institutions.

Period	Deposits			Credit granted (commercial)	Excess (+) of deposits over credit granted
	Current-account	Savings	Total		
round figures, in millions of schillings					
1952	570	1,030	1,600	440	+ 1,160
1953	2,620	1,700	4,320	2,020	+ 2,300
1954	3,790	2,530	6,320	4,270	+ 2,050
1955	— 600	2,460	1,860	3,990	— 2,130
1956	90	2,930	3,020	2,940	+ 80
Amount outstanding at the end of 1956	15,370	12,930	28,300	24,930	+ 3,470

continued, while the balance-of-payments deficit has been replaced by a surplus. This surplus, however, by increasing market liquidity, created the danger of a fresh bout of credit inflation, and in order to avoid this a new agreement, providing for a tightening of credit regulations, was concluded at the end of 1956 between the Finance Minister and the credit institutions. The most important measure taken under the agreement was a reduction from 50 to 25 per cent. in the proportion of deposits received after 31st October 1956 that could be used for the granting of additional credit. Furthermore, the banks were asked to cut down, in the three-month period from December 1956 to February 1957, the volume of outstanding credit.

The decline in the liquidity of the money and capital markets which began in Switzerland towards the end of 1955 became more and more pronounced during 1956, and since the middle of that year the credit situation has been rather tight. Full employment (and the employment of a large number of foreign workers), a high rate of investment activity, especially in the building sector, and increased imports help to explain the reduction in liquidity, to which the policies pursued by the authorities have also contributed. The total of the funds set aside out of budget surpluses and sterilised by the Federal Government continued to increase and amounted towards the end of 1956 to nearly Sw.fcs 1.5 milliard, and the gentleman's agreements between the Swiss National Bank and the banks and insurance companies concerning minimum cash holdings, the treatment of foreign deposits and the financing of building activity were prolonged for another year, i.e. up to mid-1957.

Towards the end of 1956 the Swiss National Bank temporarily released one-half (Sw.fcs 184 million) of the banks' minimum cash reserves and the Federal Government made an advance repayment of Sw.fcs 200 million of its debt to the Old Age and Dependents' Insurance Fund, which was to be passed on by the Fund to the mortgage banks. These measures did not represent any departure from the restrictive policy — mild though it was — hitherto pursued, but were only meant to help the market to meet the end-of-year financing requirements.

Switzerland: Changes in the balance sheets of a group of sixty-two banks.

Change during	Liabilities		Assets				
	Sight liabilities	Time and savings deposits, savings bonds, etc.	Cash	Bills	Advances	Mortgage loans	Securities
round figures, in millions of Swiss francs							
1955	+ 275	+ 1,445	+ 235	+ 50	+ 810	+ 785	— 95
1956	+ 400	+ 1,155	+ 15	+ 35	+ 980	+ 820	— 160
Amount outstanding at the end of 1956 . .	6,650	19,450	1,685	2,280	8,250	12,985	2,505

In 1956 bank credit — bills, advances and mortgage loans — expanded at practically the same rate as in the previous year, but there was a slackening of the flow of time and savings deposits and other longer-term funds, and the banks were not only unable to add to their cash holdings but had in fact to continue selling securities.

The most important single change in the balance sheet of the Swiss National Bank in 1956 was — as in the preceding three years — the increase in its holdings of gold and dollars, which rose by Sw.fcs 420 million to Sw.fcs 7,730 million.

New capital-market issues, net of domestic redemptions, amounted to nearly Sw.fcs 1 milliard. Domestic issues, at over Sw.fcs 700 million, showed a remarkable increase — wholly accounted for by bond issues — over the previous year. (In the first quarter of 1957 net domestic issues were placed at an even faster rate and amounted to nearly Sw.fcs 300 million.)

Switzerland: Capital-market issues.

Items	1953	1954	1955	1956	1957 1st quarter
In millions of Swiss francs					
Domestic issues (net)					
Bonds	12.3	— 59.8	332.7	550.8	221.4
Shares	21.3	49.6	173.0	152.0	72.8
Total	33.6	— 10.2	505.7	702.8	294.2
Foreign issues (gross)	224.5	395.4	427.3	284.8	4.9
Grand total	258.1	385.2	933.0	987.6	299.1

Eight foreign issues, bearing interest at rates ranging from 4 to 4½ per cent., were placed on the Swiss capital market in 1956, practically all of them in the first half of the year, the amount involved being Sw.fcs. 285 million, i.e. Sw.fcs 143 million less than in 1955. The amount of bank credit granted to foreign customers which is subject to the approval of the

Swiss National Bank, i.e. credits in excess of Sw.fcs 10 million, totalled Sw.fcs 102 million. In the summer of 1956 the National Bank, in view of the market situation, issued a recommendation to the banks temporarily to cease submitting applications for the export of capital.

The official discount rate in Switzerland, which had remained unchanged since 1936 at 1½ per cent., was raised by 1 per cent. to 2½ per cent. as from 15th May 1957. Market rates, both short and long-term, have fluctuated according to the degree of liquidity of the market, which, in its turn, has been greatly influenced in the past few years by the sterilisation of budget surpluses, the granting of foreign loans, etc. It is worth mentioning that, owing to the high rate of formation of monetary savings and the steady inflow of foreign funds, Switzerland is the cheapest country in the world from the point of view of the cost of money and also perhaps the one with the smallest spread between creditor and debtor rates. At the end of 1956 the rate allowed by the banks on their cash certificates ("Kassenobligationen") averaged 3.21 per cent. and that paid by the cantonal banks on savings deposits 2.33 per cent., while the rate charged by the latter banks on first mortgages averaged 3.54 per cent. Since the end of the year, however, more and more banks have raised their interest rates on newly-granted mortgages to 3¾ per cent. and those on cash certificates to 3½ per cent. In the capital market the yield of government bonds, which had risen from 2.54 per cent. in December 1954 to 2.94 per cent. twelve months later; was by the end of 1956 up to 3.22 per cent. and by the end of March 1957 to 3.59 per cent.

One of the most interesting developments in Italy in 1956 was the acceleration of the trend towards a balanced overall government budget. One result of this is apparent from the following table, which shows the amount of funds supplied to the private economy and the public sector by the banks and the capital market and out of the small residue of counterpart funds.

Italy: New financial resources.

Items	1953	1954	1955	1956
	in milliards of lire			
Domestic funds				
Funds supplied by the banks	973	854	973	918
by the capital market	370	542	580	623
Total	1,343	1,396	1,553	1,541
Counterpart funds	74	20	20	21
Grand total	1,417	1,416	1,573	1,562
Used by				
Central government	466	455	438	189
Private economy	951	961	1,135	1,373

There was no change from 1955 to 1956 in the total of new resources, but the proportion supplied by the capital market continued to increase. The amount of resources used by the central government declined sharply, falling from Lit. 438 milliard in 1955 to Lit. 189 milliard in 1956, so that the economy was able to use Lit. 1,373 milliard of external funds, i.e. 21 per cent. more than in 1955.

New bank credit in 1956 followed the same trend as did new financial resources taken as a whole. The total amount granted was about the same as, or somewhat smaller than, in 1955, and less went to the government and more to the economy. The increase in time and savings deposits in 1956 was also about the same as in 1955, while the money supply increased by Lit. 344 milliard, or by 8 per cent., compared with 11 per cent. the year before.

Italy: Formation of the money supply.

Items	1953	1954	1955	1956	Outstanding at the end of 1956
In milliards of lire					
Changes in the money supply					
Currency	+ 89	+ 96	+ 142	+ 169	2,065
Demand deposits	+ 215	+ 46	+ 256	+ 175	2,434
Total	+ 304	+ 142	+ 398	+ 344	4,499
Changes in corresponding items					
Bank credit to the economy	+ 679	+ 605	+ 698	+ 815	5,860
to the central government	+ 294	+ 249	+ 275	+ 103	3,409
Total bank credit	+ 973	+ 854	+ 973	+ 918	9,269
Gold and foreign exchange	- 29	+ 4	+ 59	+ 81	847
Other items	- 90	- 85	- 114	- 133	- 780
Total	+ 854	+ 773	+ 918	+ 866	9,336
Increase (-) in time and savings deposits	- 550	- 831	- 520	- 522	- 4,837
Grand total	+ 304	+ 142	+ 398	+ 344	4,499

The rate of expansion of the money supply is now very close to the rate of increase of the gross national product, which in 1956 was 7.2 per cent. The demand for credit is still very great in Italy, because of the special development programmes now under way, and interest rates are on the high side — though not always higher than in some of the other industrialised countries. The Bank of Italy has not needed to take part in the general movement of credit restriction in the last few years, thanks partly to the satisfactory level reached by the Italian foreign exchange reserves and to the receipt of foreign loans, but also owing to the high degree of co-operation shown by the banks and the gradual but steady improvement in the public finances.

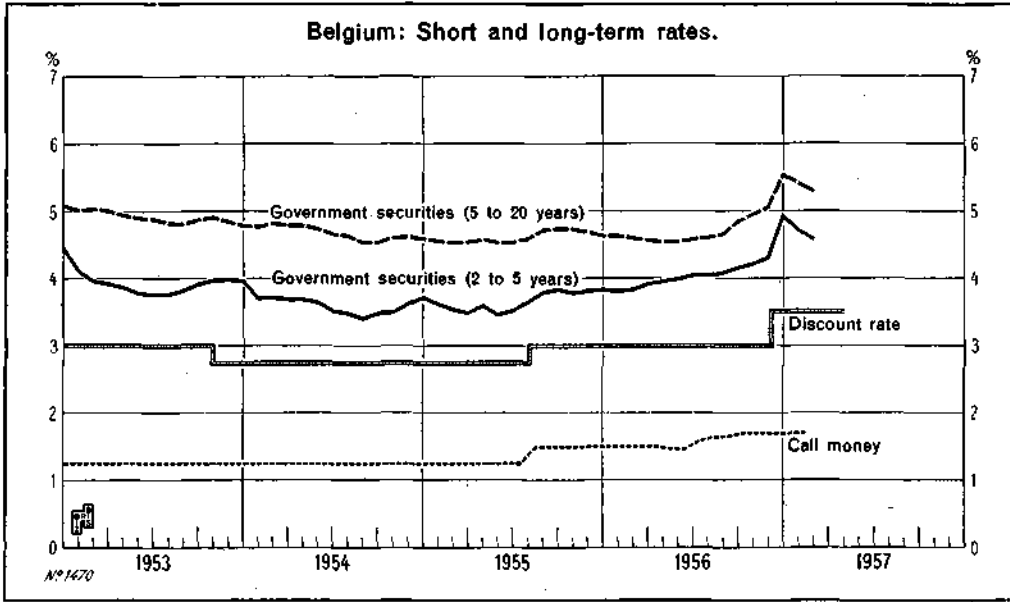
In Belgium economic prosperity was maintained throughout 1956 and the growth in the money supply was less than in 1955 and slightly smaller than the rise in the national product. The increase amounted to B.fcs 6.2 milliard in 1956 against B.fcs 9.1 milliard in the previous year, or to 3.2 per cent. against 5.0 per cent. The main reason for the slowing-down of the monetary expansion is to be found in the swing which took place from one year to the other in the gold and foreign exchange holdings of the banks.

Belgium: Formation of the money supply.

Items	Change in			Outstanding at the end of 1956
	1954	1955	1956	
	in milliards of Belgian francs			
Changes in the money supply				
Currency	+ 0.8	+ 4.0	+ 3.7	114.4
Demand deposits	+ 2.5	+ 5.1	+ 2.5	64.5
Total	+ 3.3	+ 9.1	+ 6.2	198.9
Changes in corresponding items				
Bank credit to the private economy	+ 3.0	+ 2.7	+ 4.6	49.0
to the public sector	+ 1.0	+ 2.7	+ 2.8	128.0
Total bank credit	+ 4.0	+ 5.4	+ 7.4	177.0
Gold and foreign exchange (net)	- 2.0	+ 6.4	- 0.7	54.0
Other items	+ 4.1	+ 0.7	+ 0.3	4.4
Total	+ 6.1	+ 12.5	+ 7.0	235.4
Increase (-) in time and savings deposits, etc.	- 2.8	- 3.4	- 0.8	- 36.5
Grand total	+ 3.3	+ 9.1	+ 6.2	198.9

The expansion of the money supply in 1956 was largely due to an increase in credits granted to the economy. These amounted to B.fcs 4.6 milliard, i.e. B.fcs 1.9 milliard more than in the previous year, while the total of longer-term funds (time and savings deposits, etc.) received by the money-creating institutions increased by only B.fcs 0.8 milliard (against B.fcs 3.4 milliard in 1955). The government and the other public authorities did not increase their borrowing from the banks in 1956, but by issuing more loans on the capital market they obtained funds which would otherwise have gone to the banks. In 1955, notwithstanding the large outflow of capital, the gold and foreign exchange reserves had risen by B.fcs 6.4 milliard. The reserves continued to increase during the first half of 1956 but subsequently the trend was reversed, with the result that over the year as a whole there was a loss of B.fcs 0.7 milliard.

The easy liquidity situation inherited from 1955 continued to prevail up to mid-1956, when, under the combined influence of the change in the direction of the flow of gold and foreign exchange and of large issues on the capital market, money began to become scarcer. The tighter conditions



were reflected first of all in an increase in the yields of medium and long-term bonds, followed later in the summer by rising rates in the money market.

Owing to the decline in their liquidity, the banks were compelled to have increasing recourse to the National Bank. Their balances with the bank of issue were in fact reduced by B.fcs 200 million and the total of their rediscounting increased by about B.fcs 3 milliard. For these reasons and also in order that there should be no excessive disparity between Belgian and foreign interest rates such as might encourage an outflow of capital, the National Bank on 5th December 1956 raised its discount rate by $\frac{1}{2}$ per cent. to $3\frac{1}{2}$ per cent. In April 1957 hire-purchase sales were made subject to restrictive regulations.

In 1956 the gross national product of the Netherlands increased by over 7 per cent., nearly one-half of the increase being due to higher prices. Consumption, both private and public, increased more than total output, with the result that domestic savings declined both in absolute and relative terms and were not sufficient to finance investment at the record rate at which it was running. The filling of the resultant gap led to a deterioration in the balance of payments and consequently to a loss of gold and foreign exchange reserves — the first for eight years.

The contractive effect of the outflow of Fl. 889 million's worth of gold and foreign exchange was only partly offset by the granting of new bank credit. In 1956 total new credit amounted to Fl. 556 million, i.e. about 15 per cent. less than in the previous year; the reduction applied to both the private and public sectors — in particular the central government.

Netherlands: Formation of the money supply.*

Items	1953	1954	1955	1956
	In millions of florins			
Changes in the money supply				
Currency	+ 221	+ 289	+ 373	+ 111
Demand deposits	+ 304	+ 270	+ 382	- 468
Total	+ 525	+ 559	+ 755	- 357
Changes in corresponding items				
Bank credit to public authorities	- 706	+ 142	+ 228	+ 182
to the private economy	+ 273	+ 457	+ 432	+ 374
Total bank credit	- 433	+ 599	+ 660	+ 556
Gold and foreign exchange holdings	+ 1,095	+ 248	+ 208	- 889
Other items (net)	- 142	- 44	+ 107	- 4
Total	+ 520	+ 803	+ 975	- 337
Increase (-) in time deposits	+ 5	- 244	- 220	- 20
Grand total	+ 525	+ 559	+ 755	- 357

* Including postal giro accounts.

The decline in domestic savings¹ is reflected also in the amount of new time deposits, which increased by only Fl. 20 million in 1956 compared with Fl. 220 million the previous year. The reduction in the liquidity of the whole economy is further illustrated by the decline of Fl. 468 million, or 9 per cent., in the amount of demand deposits outstanding. As the note circulation increased by a much smaller amount (and much less than in previous years), the total money supply was reduced by Fl. 357 million, or by 3.8 per cent.

The tightness was felt not only in the business and bank sectors but also on the capital market. Net issues in 1956 amounted to Fl. 605 million — two-fifths of the 1955 figure. As can be seen from the following table, the main changes from the one year to the other were a fall of over Fl. 500 million in issues of government bonds, a net redemption of foreign issues and a reduction of two-thirds in new share issues. The only increase worthy of

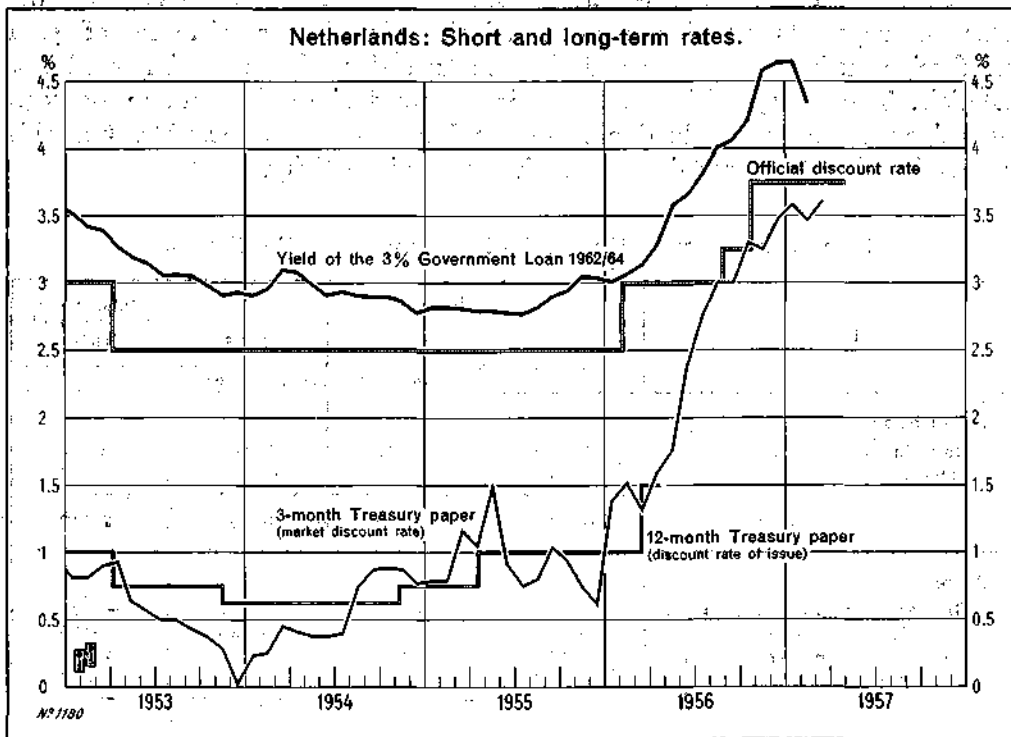
Netherlands: Net capital-market issues.

Items	1953	1954	1955	1956
	In millions of florins			
Bonds				
Government	437	246	712	205
Local authorities*	28	69	—	209
Private sector	7	35	122	124
Foreign issues	- 49	51	223	- 79
Total bonds	423	331	1,057	459
Shares	31	52	440	146
Total net issues	454	383	1,497	605

* Including the Bank for Netherlands Municipalities.

note was that in local-authority issues, which in 1956 drew Fl. 209 million off the capital market.

As a result of these developments a number of large Dutch enterprises took steps to by-pass the capital market and make sure of receiving substantial amounts of capital in future years by concluding forward contracts with institutional investors. The government also entered this new field and reached a general agreement with life assurance companies, which undertook to place in the course of 1957 and 1958 a total amount of Fl. 400 million at the disposal of the Bank for Netherlands Municipalities, an institution which grants loans to local authorities, largely for housing purposes. The nominal interest rate on these loans, which have a currency period of thirty years, is $4\frac{1}{4}$ per cent., but the actual yield will be rather more than $4\frac{1}{2}$ per cent., which is fully in line with long-term market rates at the end of 1956.



In the money market interest rates stiffened considerably during 1956. Between December 1955 and December 1956 the market discount rate for three-month Treasury bills rose by nearly 3 per cent. to $3\frac{1}{2}$ per cent., coming very close to the official discount rate, which had been raised three times in the same period, by $1\frac{1}{4}$ per cent. in all to $3\frac{3}{4}$ per cent.

In order, however, to prevent the shortage of liquid funds from having an excessively strong and sudden impact on the economy, the Nederlandsche Bank also reduced the minimum cash requirements for the banks in 1956 from 10 to 7 per cent. and again in March 1957 to 6 per cent.

In mid-February 1957 the Dutch Government submitted to Parliament a number of measures intended to safeguard the domestic purchasing power and external position of the currency. These included cuts of about Fl. 300 million in public expenditure, increases in corporate profit taxes and the temporary abolition of the special tax allowance on new investments, an increase in the charges made for public services and the abolition of certain food subsidies. With the co-operation of the trade unions, which gave the government their full support in this effort to maintain the stability of the currency, it was decided that wage-earners would receive no compensation for the rise in the cost of living resulting from the above-mentioned measures; they are to be compensated, however, for the increase of 25 per cent. in controlled rents, which is to be effective as from 1st July 1957.

Credit and fiscal policies in Denmark are greatly influenced by the balance-of-payments position because of the virtual non-existence of gold and foreign exchange reserves and the country's dependence on imported raw materials. The policy of internal restraint pursued since the autumn of 1954 has helped to divert production from the home market to exports, but this process has led to a certain decline in economic activity.

Danmarks Nationalbank: Main assets and liabilities.

Items	Change during			Outstanding at the end of 1956
	1954	1955	1956	
in millions of Danish kroner				
Liabilities				
Notes in circulation	+ 26	+ 72	+ 155	2,372
Sight deposits	- 78	+ 47	- 64	377
Total	- 52	+ 119	+ 91	2,749
Assets				
Gold and foreign exchange (net)	- 498	- 67	+ 7	- 163
Credit to the economy	+ 198	- 149	- 59	189
Credit to the Treasury (net)	+ 263	+ 197	+ 39	2,505
Other items (net)	- 15	+ 138	+ 104	218
Total	- 52	+ 119	+ 91	2,749

The changes in the main items of the balance sheet of the National Bank over the year 1956 as a whole were small. The central bank's sight liabilities increased by D.Kr. 91 million, or 3.4 per cent., as a result of a substantial rise in the note circulation and a fall in deposits. As prices rose proportionately more than the volume of central-bank money, the credit situation became fairly tight, a tendency which was further intensified by the relatively large amount of new lending undertaken by the commercial banks, this having amounted to D.Kr. 377 million in 1956, compared with only D.Kr. 66 million in 1955.

Since the middle of 1954 the official discount rate has been 5½ per cent. Not only are interest rates as a whole rather high but in the last year or two the interest-rate weapon has become more effective owing to the abolition or reduction of privileged borrowing and of subsidies, particularly housing subsidies. In the long-term sector the yield on government bonds, which had fallen somewhat during the early months of 1956, rose to a little over 7 per cent. in December.

In March 1956, in order to prevent policies intended to curb consumption from discouraging investment as well, two bills were tabled in Parliament providing for privileged fiscal treatment for investment expenditure. The tax-free depreciation allowances were increased and firms were allowed to deduct from profits for income-tax purposes funds — not exceeding 15 per cent. of the year's profits — set aside for future purchases of investment assets and placed in specially created investment accounts.

No new credit measures were adopted in Norway in 1956. The official discount rate has stood at 3½ per cent. since early 1955, when it was raised by 1 per cent., but the arrangements made in the autumn of 1955 to reduce the lending activity of the banks were kept in force throughout 1956 and will continue during 1957. It was agreed at that time between the Norges Bank and the commercial and savings banks that the credit granted by the banks in 1956 and 1957 should not be allowed to exceed the level reached in 1955 and that the savings banks should subscribe to government loans an amount corresponding to at least half the growth in their deposits. The insurance companies, in their turn, undertook to purchase at least N.Kr. 200 million of state or state-guaranteed loans in the course of 1956 and 1957. Early in 1956 the Norwegian authorities declared that they were satisfied that all three groups of institutions had observed the agreement.

The government, too, kept its promise to reduce its lending to the state banks. Whereas in 1955 these banks received N.Kr. 735 million in loans from the government, such loans, which are used by the state banks for the financing of housing, were reduced in 1956 to N.Kr. 546 million. Furthermore, the government borrowed more in the capital market in 1956 than had been expected the previous year, its net withdrawals of liquid funds from the market having amounted to N.Kr. 225 million.

The effects of the improvement in the country's gold and foreign exchange position, however, more than offset the above-mentioned reduction in liquidity. The net gold and foreign exchange reserves of the Norges Bank increased in 1956 by N.Kr. 300 million, and this increase had as its counterpart an expansion of N.Kr. 200 million in the note circulation, i.e. in liquid holdings, for the most part those of households.

The Norwegian commercial and savings banks received new deposits — consisting entirely of time deposits — amounting to N.Kr. 410 million, while their loans and security holdings increased by N.Kr. 150 million. Their

Norges Bank: Changes In main assets and liabilities.

Year	Assets	Liabilities		
	Net gold and foreign exchange reserves	Note circulation	Deposits	
			Banks	Government
round figures, in millions of Norwegian kroner				
1953	- 495	+ 210	- 10	- 360
1954	- 275	+ 195	- 165	- 350
1955	+ 125	- 15	+ 85	+ 130
1956	+ 300	+ 200	- 30	+ 65
Amount outstanding at the end of 1956 . . .	355	3,500	610	1,110

liquid resources (cash, balances held at the Norges Bank and Treasury bills) rose by N.Kr. 50 million to N.Kr. 1,150 million, and there was also an increase in their net holdings of balances abroad.

Even though there was no change in the official discount rate in 1956, the policy of reducing the lending capacity of the banks had a certain effect on market rates of interest. The yield of the 2½ per cent. government loan of 1946, which had been 3.43 per cent. in December 1954 and 4.97 per cent. twelve months later, had risen by December 1956 to 5.48 per cent.

In Sweden, wages of industrial workers rose in 1956 by 8 per cent. and consumer prices by 4 per cent. Thanks, however, to larger net receipts

Sweden: Formation of the money supply.*

Items	Change in				Outstanding at the end of 1956
	1953	1954	1955	1956	
In millions of Swedish kroner					
Changes in the money supply					
Currency	+ 258	+ 252	+ 231	+ 280	5,599
Demand deposits	- 44	- 82	- 194	+ 101	2,132
Total	+ 214	+ 170	+ 47	+ 381	7,730
Changes in corresponding items					
Gold and foreign exchange	+ 340	- 111	+ 38	+ 214	2,765
Credit to public authorities (net)	+ 1,261	+ 259	+ 633	+ 765	7,425
to the private economy	+ 104	+ 908	- 632	+ 116	10,590
Total credit	+ 1,365	+ 1,167	+ 1	+ 881	18,015
Increase in time and savings deposits (-)	- 1,525	- 970	- 66	- 380	- 10,958
Other items	+ 34	+ 84	+ 74	- 324	- 2,092
Grand total	+ 214	+ 170	+ 47	+ 381	7,730

* The table relates to movements of funds at the Riksbank and the commercial banks and does not take into account those of savings banks and the postal-cheque system.

from shipping — these having risen from S.Kr. 1,025 million in 1955 to S.Kr. 1,215 million in 1956 — the gold and foreign exchange holdings of the Riksbank and the commercial banks increased by S.Kr. 214 million, compared with only S.Kr. 38 million the year before.

The addition of S.Kr. 381 million to the money supply is partly explained by the inflow of gold and foreign exchange. But the most striking change revealed by a comparison of the development of the counterpart items to the money supply in the last two years is the fact that total new credit rose from nil in 1955 to S.Kr. 881 million in 1956, owing to the continued high level of borrowing by the public authorities and to the reversal of the credit position of the private economy, which resumed its borrowing in 1956, whereas in the previous year it had repaid S.Kr. 632 million of its debt to the banks. This reversal needs to be illustrated in greater detail, since it is connected with the credit measures taken in Sweden during the two years in question.

Sweden: Changes in the main assets and liabilities of the commercial banks.

Year	Liquid assets			Loans and discounts			Deposits
	Cash	Government securities	Total	Building	All others	Total	
round figures, in millions of Swedish kronor							
1953	- 350	+ 1,640	+ 1,290	+ 340	- 260	+ 80	+ 1,480
1954	+ 0	- 310	- 310	+ 450	+ 710	+ 1,160	+ 890
1955	+ 310	- 90	+ 220	+ 0	- 560	- 560	- 120
1956	- 170	+ 350	+ 180	+ 440	- 340	+ 100	+ 480
Amount outstanding at the end of 1956 . .	790	3,310	4,100	1,730	8,910	10,640	13,090

In 1954 the total amount of loans granted by the commercial banks had been well in excess of the increase in deposits, the gap having been filled by sales of government securities, i.e. of assets which, in Sweden, are considered as part of the banks' liquidity. The reduction in liquidity continued up to the spring of 1955, when the Riksbank raised its official discount rate by 1 per cent. to 3¾ per cent. and called upon the banks to adhere more strictly to the prescribed liquidity ratios. In September of the same year it requested the banks to reduce their advances by the end of October to a level 1 per cent. lower than at the end of July. Building loans, however, were excluded from the cut. For 1955 as a whole the results were as follows: (a) no change in building loans, (b) a reduction of S.Kr. 560 million in all other loans and (c) an increase of S.Kr. 220 million in liquid assets.

In April 1956 the Riksbank gave another turn to the screw by asking the banks to cut down their advances by August 1956 to a level 5 per cent. below that of July 1955. Once again building loans were excluded from the squeeze. The changes over the year as a whole were as follows: (a) an increase of S.Kr. 440 million in building loans, (b) a further decline of

S.Kr. 340 million in all other loans, and (c) another addition to liquid assets. On 22nd November 1956, the Riksbank, in order to strengthen the country's defences against strains coming from outside (in connection with the Suez crisis), raised the official discount rate by $\frac{1}{4}$ per cent. to 4 per cent. — its highest level since August 1932. In view of the by then relatively easy liquidity position of the banks the Riksbank at the same time recommended the National Debt Office to issue a 24-year $4\frac{3}{4}$ per cent. loan. But even though relatively large amounts were taken up by insurance companies, total subscriptions came to only S.Kr. 200 million.

Economic and financial developments in Finland during 1956 and the early months of 1957 seem to indicate a lack of balance which can only be remedied by very determined action by all parties concerned. Industrial production in 1956 rose by 2-3 per cent., against 11 per cent. in 1955; for the first time for many years there was a deficit in the balance of payments; wholesale prices increased by 9 per cent. and retail prices by 17 per cent.

The loss in the country's foreign exchange (and gold) holdings exceeded FM 13 milliard, of which FM 10.5 milliard was accounted for by an outflow from the central bank; the resultant reduction in the liquidity of the monetary system thus reinforced the restrictive effect of the measures taken by the Bank of Finland in 1955, which included the introduction of minimum-cash-reserve requirements for the banks and of a system of import-licence deposits; it occurred at a time when the demand for loans was tending to increase owing to rising prices and wages.

Bank of Finland: Main assets and liabilities.

Items	Change in				Outstanding at the end of 1956
	1953	1954	1955	1956	
	in milliards of markkas				
Assets					
Credit to the banks (rediscounting)	- 9.0	+ 0.2	+ 14.2	+ 11.0	33.6
to the public (net)	+ 1.8	- 1.7	+ 4.7	+ 2.5	32.5
Total	- 7.2	- 1.5	+ 18.9	+ 13.5	66.1
Credit to the Treasury (net)	- 0.4	- 0.2	+ 5.7	- 3.2	8.6
Total credit	- 7.6	- 1.7	+ 24.6	+ 10.3	74.7
Gold and foreign exchange (net)	+ 6.7	+ 10.3	+ 2.4	- 10.5	12.4
Grand total	- 0.9	+ 0.6	+ 27.0	- 0.2	87.1
Liabilities					
Cash-reserve deposits	-	-	+ 6.7	- 6.7	-
Import-licence deposits	-	-	+ 6.6	- 2.5	4.1
Other items (net)	+ 0.2	- 2.3	+ 5.7	+ 4.2	22.3
Total	+ 0.2	- 2.3	+ 19.0	- 5.0	26.4
Note circulation	- 1.1	+ 2.9	+ 8.0	+ 4.8	60.7
Grand total	- 0.9	+ 0.6	+ 27.0	- 0.2	87.1

On 19th April 1956 the Bank of Finland raised the official discount rates applicable to its direct lending to business from 5-7½ per cent. to 6½-8 per cent. Moreover, the rate which the banks were charged for rediscounting was increased by the addition of a surcharge which brought it up in most cases to 11 per cent. Even so, by the middle of the year the total of rediscounting had risen to above FM 27 milliard. The Bank of Finland then decided not to renew the minimum-cash-reserve agreement due to expire in June 1956 and to refund the balances in question earlier than had been arranged. At the same time the amount which had to be deposited in respect of import licences, which had been raised from 10 to 20 per cent. of the value of the licence immediately after the end of the general strike in February 1956, was lowered again to 10 per cent. These relaxations had the effect of releasing over FM 9 milliard, whereas in 1955 the measures concerned had served to sterilise more than FM 13 milliard.

After having declined somewhat in July and August, the banks' rediscounting began to rise again and by the end of the year it had reached FM 34 milliard — an increase of FM 11 milliard in twelve months. Consequently, notwithstanding a reduction in the Bank of Finland's net lending to the Treasury and the heavy loss of foreign assets, the note circulation went up by a further FM 4.8 milliard. An indication of the reason for the heavy recourse of the Finnish credit institutions to the central bank in 1956 is given by the following table.

Finland: New deposits and credit granted.*

Items	1953	1954	1955	1956	Out- standing at the end of 1956
	In milliards of markkas				
New deposits received (demand, time and savings)	36.6	46.6	46.8	8.9	369.0
Credit granted (bills, loans and advances) . . .	27.4	49.4	52.2	19.2	382.4
Excess of credits over deposits (—) . . .	+ 9.2	— 2.8	— 5.4	— 10.3	— 13.4

* All credit institutions, excluding the central bank and the postal giro accounts.

In 1956 both new deposits and new credits decreased sharply; the former, however, fell much more than the latter, so that funds lent exceeded those received by over FM 10 milliard.

In Finland, time and savings deposits represent the greater part of total deposits, and this is also true with regard to the deposits of the commercial banks. In 1954 and 1955 longer-term deposits held with the Finnish commercial banks had risen by FM 13 and 14.4 milliard respectively; in 1956 they declined by FM 1 milliard. This development is attributable, at least in part, to the introduction, in May 1955, of index-tied deposits. At first the public's response was rather poor; by the end of the year only FM 340 million had been placed in such accounts and the commercial banks had withdrawn from the scheme. Early in 1956, very likely owing to the

threat of renewed inflation, index-tied deposits began to attract an increasing flow of funds, mostly from other types of accounts, and by the end of the year they had shot up to FM 22.4 milliard. As from 1st January 1957 the commercial banks again began to accept these deposits.

On 2nd January 1957 the Finnish Government issued two bond loans. The first of these, reserved for the private credit institutions, was for an amount of FM 6 milliard and was to bear interest at a rate $\frac{1}{2}$ per cent. above that allowed on index-tied deposits (at present $4\frac{3}{4}$ per cent.); the other, for an amount of FM 1.5 milliard, was offered for subscription to the public and was to bear interest at a rate $1\frac{1}{2}$ per cent. above that allowed on normal six-month deposits (at present $5\frac{3}{4}$ per cent.), subject, however, to a ceiling of $7\frac{3}{4}$ per cent. In the case of both loans redemption values are tied, to the extent of one-half, to the cost-of-living index and both interest and index premiums are exempt from taxation.

During the first quarter of 1957 Finland's external position continued to deteriorate and the central bank's net gold and foreign exchange reserves fell by about FM 5.5 milliard, while the Treasury's cash resources were completely exhausted.

In March–April 1957 the Bank of Finland authorised the commercial banks to raise the interest rate charged on their loans in practice from 8 to 9 per cent. It asked them, however, not to increase the amount of credit granted to consumers and to retail trade and to refrain from granting credits for speculative purposes and also announced that, with effect from 1st August, it would place a ceiling on the rediscount facilities it allowed them. At the same time the amount held in the form of import-licence deposits — over FM 4 milliard — was temporarily placed free of interest at the disposal of the Treasury.

* * *

In most of the countries discussed in this chapter the monetary authorities found themselves in the early part of 1957 in a much better position to take effective action than was the case in the preceding year. Whereas in 1956 their efforts to keep aggregate expenditure in line with real output by slowing down or even halting the increase in the money supply were in a number of countries more than offset by the behaviour of the public, which, in view of the scarcity of credit and the rise in interest rates, activated formerly idle funds, this source of expansion of aggregate demand now seems to be nearly exhausted. The further development of aggregate expenditure will therefore become increasingly dependent on that of the money supply itself, which, in contrast to the velocity of circulation, is under the direct control of the monetary authorities, whose possibilities in this respect have, moreover, been greatly enhanced in some countries by a number of additions to the arsenal of instruments at their disposal, such as variable ceilings on the refinancing of the commercial banks at the central bank, direct limitations on bank advances, the control of hire-purchase, etc.

Whether the growing strength of the monetary authorities can be effectively applied depends — at least if excessive wage increases are avoided — on the budgetary situation of the country concerned. A budget deficit tends, in times of full employment, to make the task of the monetary authorities more difficult, even if recourse is had for its financing not to the banking system but to the public. For in this case the amount of savings available for private investment will be correspondingly smaller and, if inflation is not to result, a tighter monetary policy will have to be adopted in order to keep savings and investments in line. And even a balanced budget will have a similar effect on monetary policy if the level of government expenditure and therefore of taxation is very high and savings in the economy are thereby reduced. Budgetary and monetary policy are all of a piece — as is amply illustrated by the preceding analysis of the money supply in the various countries — and their co-ordination is a prerequisite for the success of any policy which aims to keep aggregate expenditure in line with real output so as to avoid general price rises or balance-of-payments deficits.

Another factor which may influence the effectiveness of monetary policy is the growing importance of the institutional investors, such as insurance companies, pension funds and the like, and the correspondingly smaller rôle played by private investors. It is worthy of note that in some countries (e.g. the Scandinavian countries, Switzerland and the Netherlands) there is a tendency to make insurance companies subject to regulations similar to those applying to commercial banks and that in others (the United Kingdom and the United States) special committees are being set up to study the implications of such structural changes from the point of view of credit policy.

Money supply and gross national product.

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	In milliards of national currency units			as percentage of gross national product	
Belgium (francs)					
1938 ¹	23.6	41.2	80.0	30	52
1949	89.1	150.5	347.4	26	43
1953	103.3	175.1	432.8	24	40
1954	104.8	179.8	448.6	23	40
1955	108.6	186.7	476.4	23	39
1956	111.5	193.4	503.5	22	38
Denmark (kroner)					
1938	0.41	2.41	7.66	5	31
1945	1.40	7.78	14.48	10	54
1949	1.50	6.43	20.21	7	32
1953	1.89	7.08	28.65	7	25
1954	1.98	7.37	29.90	7	25
1955	2.01	7.26	30.98	6	23
1956	2.15	7.67	32.50*	7	23
Finland (markkas)					
1938	2.3	3.9	36.4	6	11
1945	17.0	24.6	118.3	14	21
1949	28.5	47.1	420.9	7	11
1953	45.1	72.2	815.3	6	9
1954	47.6	78.9	891.3	5	9
1955	52.4	85.5	985.3	5	9
1956	59.1	91.3	1,100.0	5	8
France (francs)					
1938 ¹	116	196	435	27	45
1946 ²	668	1,210	3,020	22	40
1949 ²	1,179	2,439	8,400	14	29
1953	2,201	4,368	14,530	15	30
1954	2,421	4,860	15,440	16	31
1955	2,699	5,538	16,790	16	33
1956	3,012	6,236	18,200	17	34
Germany (D. Mark)					
1949	6.8	12.9	79.4	9	16
1953	11.4	21.9	134.3	8	16
1954	12.1	24.0	145.5	8	16
1955	13.3	26.6	164.0	8	16
1956	14.5	29.0	180.2	8	16
Italy (lire)					
1938	22	38	150	15	25
1947	716	1,226	6,016	12	20
1949	1,066	2,005	7,606	14	26
1953	1,471	3,281	11,093	13	30
1954	1,568	3,433	11,820	13	29
1955	1,670	3,727	12,946	13	29
1956	1,789	4,087	13,878	13	29

See notes on next page.

Money supply and gross national product (contd).

Year	Currency circulation	Total money supply	Gross national product (at market prices)	Currency circulation	Total money supply
	in milliards of national currency units			as percentage of gross national product	
Netherlands (florins)					
1938	0.99	2.48	5.90	17	42
1946	2.40	5.50	10.70	22	51
1949	3.07	7.28	17.50	18	42
1953	3.25	8.28	24.04	14	34
1954	3.50	8.85	26.39	13	34
1955	3.85	9.40	28.99	13	32
1956	4.17	9.56	31.10	13	31
Norway (kroner)					
1938 ¹	0.45	0.62	5.86	8	11
1946 ¹	1.87	4.32	11.03	17	39
1949	2.06	5.08	15.02	14	34
1953	2.77	5.98	22.82	12	26
1954	2.96	5.29	24.53	12	26
1955	3.05	6.02	26.23	12	23
1956	3.07	5.98	28.84	11	21
Sweden (kronor)					
1938	0.96	2.78	12.00	8	23
1945	2.50	6.06	20.50	12	30
1949	3.09	7.50	29.24	11	26
1953	4.47	10.10	43.24	10	23
1954	4.69	10.44	45.12	10	23
1955	4.96	10.55	48.92	10	22
1956	5.22	10.91	51.73	10	21
Switzerland (francs)					
1938	1.8	4.6	10.0	18	46
1945	3.6	8.2	15.2	25	54
1949	4.6	10.3	20.0	23	52
1953	5.2	12.3	24.3	22	51
1954	5.4	12.8	25.5	21	50
1955	5.6	13.1	26.8	21	49
1956	5.7	13.8	28.2*	20	49
United Kingdom (pounds)					
1938	0.44	1.63	5.76	8	28
1946	1.34	4.55	9.95	13	46
1949	1.25	4.99	12.51	10	40
1953	1.46	5.23	16.91	9	31
1954	1.55	5.44	17.97	9	30
1955	1.66	5.50	19.08	9	29
1956	1.77	5.48	20.46	9	27
United States (dollars)					
1935-39 ³	5.8	30.4	84.5	7	36
1946	26.4	106.0	209.2	13	51
1949	25.1	108.5	257.3	10	42
1953	27.3	126.0	363.2	8	35
1954	27.0	127.7	360.7	7	35
1955	27.2	132.2	390.9	7	34
1956	27.5	133.8	412.4	7	32

* Unofficial estimate. ¹ End of period. ² Quarterly averages. ³ Averages of June and December figures.
 Note: The figures for currency circulation and total money supply are monthly averages of the year. The total money supply consists of the currency circulation (notes and coins) and demand deposits.

IV. World Markets and Domestic Prices.

The development of prices of commodities traded on the world markets was in 1956 and the beginning of 1957 characterised by wider fluctuations than in the preceding years. The prices of a large number of these commodities, which had been relatively stable since the end of the Korean war, underwent a rise as a result of the Suez crisis; but these strains were only short-lived, and in the spring of 1957 prices had on the whole returned to the levels at which they had stood before the crisis.

If, however, account is taken not only of commodity prices on the world markets but also of the movement of the overall indexes of wholesale and retail prices in the various countries, the situation appears in a different light. Whereas in 1954 and even in 1955 there were fairly marked dissimilarities in the movements shown by these indexes, prices having continued to fall in a few countries and to rise in others, in 1956 there was a quite general increase in both retail and wholesale prices.

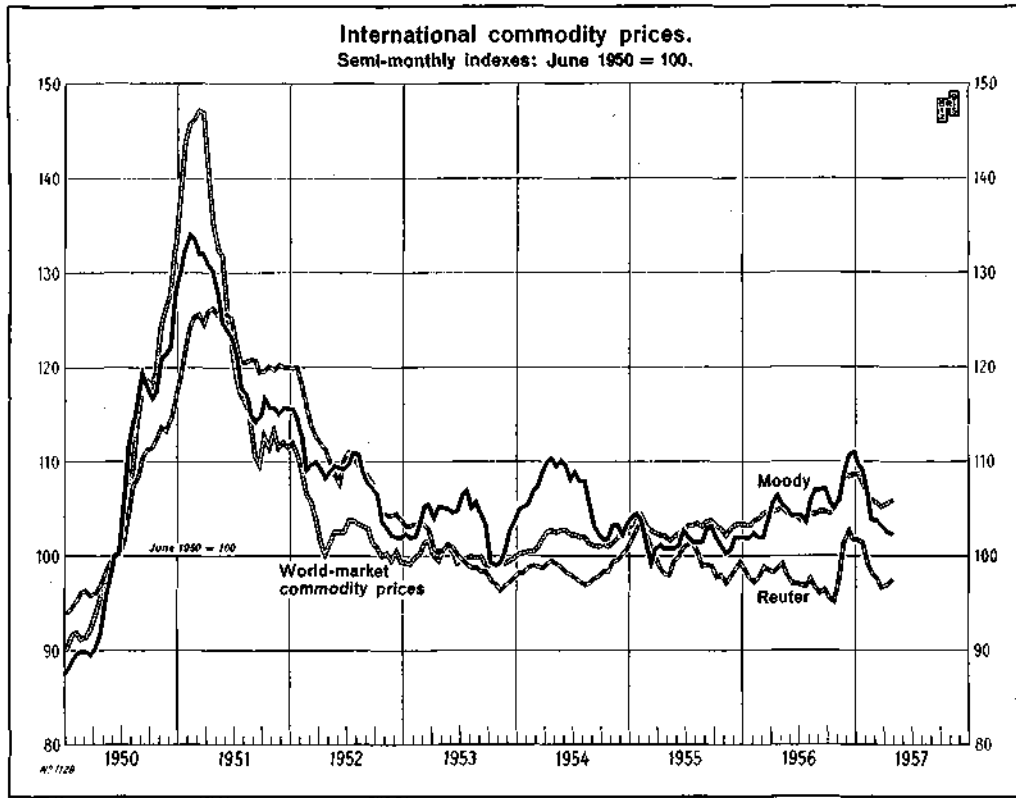
In most countries this price increase was moderate in extent, but in many of them it had been preceded in earlier years by similar rises, so that not infrequently the cumulative rise over the period 1954-56 amounted to between 10 and 20 per cent. Even in the United States, where prices remained fairly stable in 1954 and 1955, there was in 1956 a rise of 2.9 per cent. in the cost of living and of 4.5 per cent. in wholesale prices.

This general increase in prices is a sign that the inflationary tendency prevailing all over the world has become considerably stronger and it is clear that no country can remain completely immune from it for long. There is thus a greater need than ever for energetic and carefully co-ordinated action.

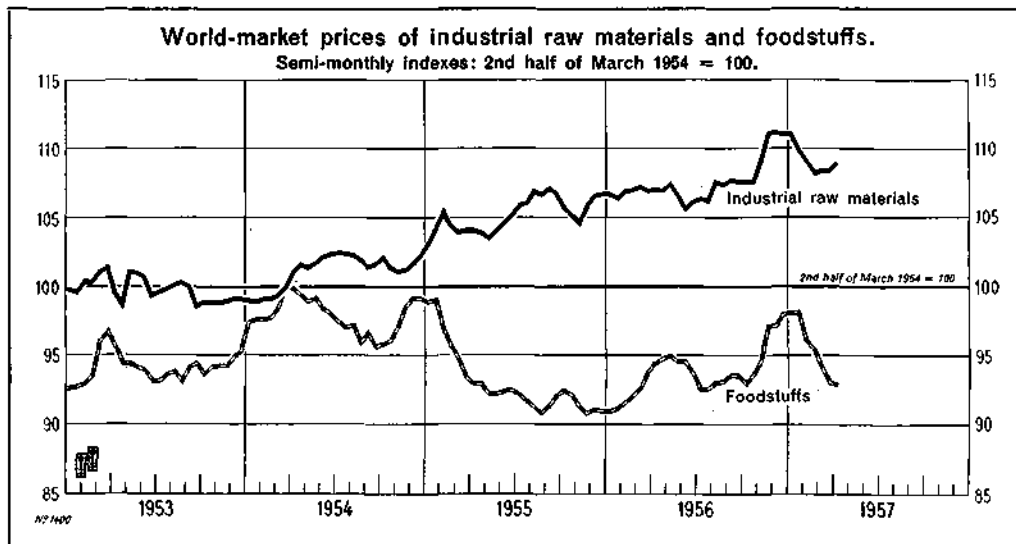
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Over the three-year period 1954-56 as a whole the price change, as shown in the World-Market Commodity Price Index (calculated by R. Schulze, Bonn), works out at 9 per cent.; in 1956 alone the overall price rise was 5 per cent. During the first quarter of 1957 the prices of all the commodities included in the index fell, and the index declined by 3 per cent. almost to the level prevailing at the time of the outbreak of the Suez crisis.

Price indexes for world-market commodities — even more than national price indexes — conceal a large number of different movements in the prices of the various commodities which they cover. A sub-division of the indexes merely into the two broad categories of industrial raw materials and foodstuffs already reveals marked differences in the development of these two components. Whereas the prices of industrial raw materials have in the



past two years been above their 1954 level, food prices have been below it, and whereas there was a rise in prices of industrial raw materials up to the second half of 1955, there was a decline in food prices over the same period; both sets of prices, however, went up during the Suez crisis and both fell when the crisis was over.



With regard to individual commodities, the three basic industrial raw materials — coal, steel and oil — all experienced price rises during 1956.

The expansion of coal production in Europe has been impeded in recent years by obstacles which are well known: the greatest difficulty, apart from those of a technical nature, has been to find the coal-miners required to increase coal output and in the last three boom years it proved impossible to expand output in western Europe as a whole by more than roughly 1 per cent. per year. Although in the European coal-producing countries the price of coal is not a "free" price which automatically fluctuates according to supply and demand conditions, since increases in this price require in practice — whether the coal-mines are nationalised or not — the consent of the government concerned, account has had to be taken of the pressure of demand on supply and of the rise in the cost of production. In 1956 the price of hard coal was raised in the United Kingdom from 101s. 4d. to 108s. 11d. per long ton and in Germany, in two steps, from DM 52.50 to 58.60 per metric ton. Still higher prices were paid for such foreign coal as was used in Europe. Western Europe's coal imports amounted to about 47 million tons in 1956 (10 per cent. of its total production) as against 34 million tons in 1955;

World production of hard coal.

Countries and groups of countries	1938	1952	1953	1954	1955	1956
	In millions of metric tons					
Coal and Steel Community						
Germany (Federal Republic)	137	124	125	128	131	134
Belgium	30	30	30	29	30	30
France	47	55	53	55	55	55
Saar	14	16	16	17	17	17
Italy	1.5	1	1	1	1	1
Netherlands	13	13	12	12	12	12
Total for the Community	242	239	237	242	246	249
United Kingdom	231	230	228	228	225	226
Other western European countries (including Turkey)	9	18	18	18	19	20
Total for western Europe	482	487	483	488	490	495
Eastern Europe						
Poland	69	84	89	92	95	95
Czechoslovakia	16	20	20	22	22	23
Germany (eastern)	3.5	3	3	3	3	3
Other eastern European countries	1.5	3	3	3	3	4
Total for eastern Europe (excluding the U.S.S.R.)	90	110	115	120	123	125
U.S.S.R.	115	215	224	244	276	305
United States	355	458	440	380	449	488
All other countries*	168	230	238	248	262	277
World total	1,210	1,500	1,500	1,480	1,600	1,690

* The main coal-producing countries included under this heading are — in order of the size of their output in 1956 — China, Japan, India, South Africa, Australia and Canada.

in 1956 38 million tons of these imports came from the United States alone and their total cost was about \$800 million. The domestic coal price in the United States had been raised from \$4.73 per short ton at the mine in the first quarter of 1956 to \$5.43 in the last quarter, which is still considerably below European domestic prices. But the heavy freight for moving coal inside the United States and the cost of shipping it across the Atlantic caused prices of American coal at European ports to be much higher than domestic prices. In March 1956 the ocean freight alone was just below \$9 per ton and at the peak of the Suez crisis it had risen to \$17; and the price for American coal in Rotterdam varied during 1956 between \$20 and \$30 (in March 1957 it was back at the lower figure). About half of the \$800 million spent by the western European countries on American coal was absorbed by freight.

Steel production has expanded fast in the past few years, particularly in continental Europe. In 1956 the production of the members of the Coal and Steel Community was 43 per cent. above that of 1953 and in the United Kingdom it was 17 per cent. above, whereas in the United States

World production of crude steel.

Countries and groups of countries	1938	1952	1953	1954	1955	1956
	In millions of metric tons					
Coal and Steel Community						
Germany (Federal Republic)	17.9	15.8	15.4	17.5	21.3	23.2
Belgium	2.3	5.1	4.4	5.0	5.9	6.4
France	6.2	10.9	10.0	10.6	12.6	13.4
Saar	2.6	2.8	2.7	2.6	3.2	3.4
Italy	2.3	3.5	3.5	4.2	5.4	5.9
Luxemburg	1.4	3.0	2.7	2.8	3.2	3.5
Netherlands	0.1	0.7	0.9	0.9	1.0	1.0
Total for the Community	32.8	41.8	39.6	43.8	52.6	56.8
United Kingdom	10.6	16.7	17.9	18.8	20.1	21.0
Other western European countries	2.6	4.8	5.3	6.1	7.0	7.6
Total for western Europe	46.0	63.3	62.8	68.7	79.7	85.4
Eastern Europe						
Poland	1.9	3.2	3.6	4.0	4.4	5.0
Czechoslovakia	1.9	3.8	4.4	4.3	4.5	4.9
Germany (eastern)	1.7	1.9	2.2	2.3	2.5	2.7
Other eastern European countries	0.9	1.8	2.2	2.1	2.5	2.6
Total for eastern Europe (excluding the U.S.S.R.)	6.4	10.7	12.4	12.7	13.9	15.2
U.S.S.R.	16.1	34.5	36.1	41.4	45.3	49.6
United States	28.8	84.5	101.3	80.1	106.1	104.3
All other countries*	10.7	19.0	20.4	21.1	25.0	26.5
World total	110	212	235	224	270	282

* The main crude-steel-producing countries included under this heading are — in order of the size of their output in 1956 — Japan, Canada, China, Australia, India and South Africa.

it had risen by only 3 per cent. Comparing 1956 with 1955, the increase in the former group of countries was 8 per cent. and in the United Kingdom 4.5 per cent.; production in the United States actually declined somewhat.

All the major steel producers raised the price for their products in 1956 in response to rising costs of production. In the United States, the price of steel was increased as a result of the agreement with labour to which reference has been made in Chapter I. In the European countries, where the price of steel — for the same reason as that of coal — is not a “free” one, the rise in wage rates and in the prices of coal and scrap iron necessitated — and the pressure of demand permitted — an increase in steel prices. By the end of 1956 the price for steel bars had risen since the beginning of the year by 6.1 per cent. in Belgium and Germany, 4.5 per cent. in France, 5.7 per cent. in the United Kingdom and 9.2 per cent. in the United States.

In recent years oil production outside the U.S.S.R. and the eastern European countries has expanded at a very rapid rate and has kept up well

World production of crude petroleum.

Areas	1938	1951	1952	1953	1954	1955	1956
	in millions of metric tons						
American continent							
United States	164	304	309	319	313	336	354
Venezuela	26	91	97	94	101	115	132
Others	17	32	34	37	41	47	54
Total	209	427	440	450	455	498	540
Europe, western	1	5	6	7	8	10	10
Middle East							
Kuwait	—	26	38	44	48	55	55
Saudi Arabia	0	37	40	41	46	47	48
Iraq	4	9	19	28	31	34	31
Iran	11	17	1	1	4	16	27
Others	1	6	8	8	9	10	11
Total	16	97	106	122	138	162	172
Other western countries	10	14	15	17	19	26	26
Total for western countries	236	543	567	596	620	696	748
Eastern countries							
U.S.S.R.	30	42	47	53	59	71	84
Roumania	6	6	8	9	10	10	11
Others including China	1	2	2	2	3	3	2
Total	37	50	57	64	72	84	97
Grand total*	280	608	639	675	707	796	861

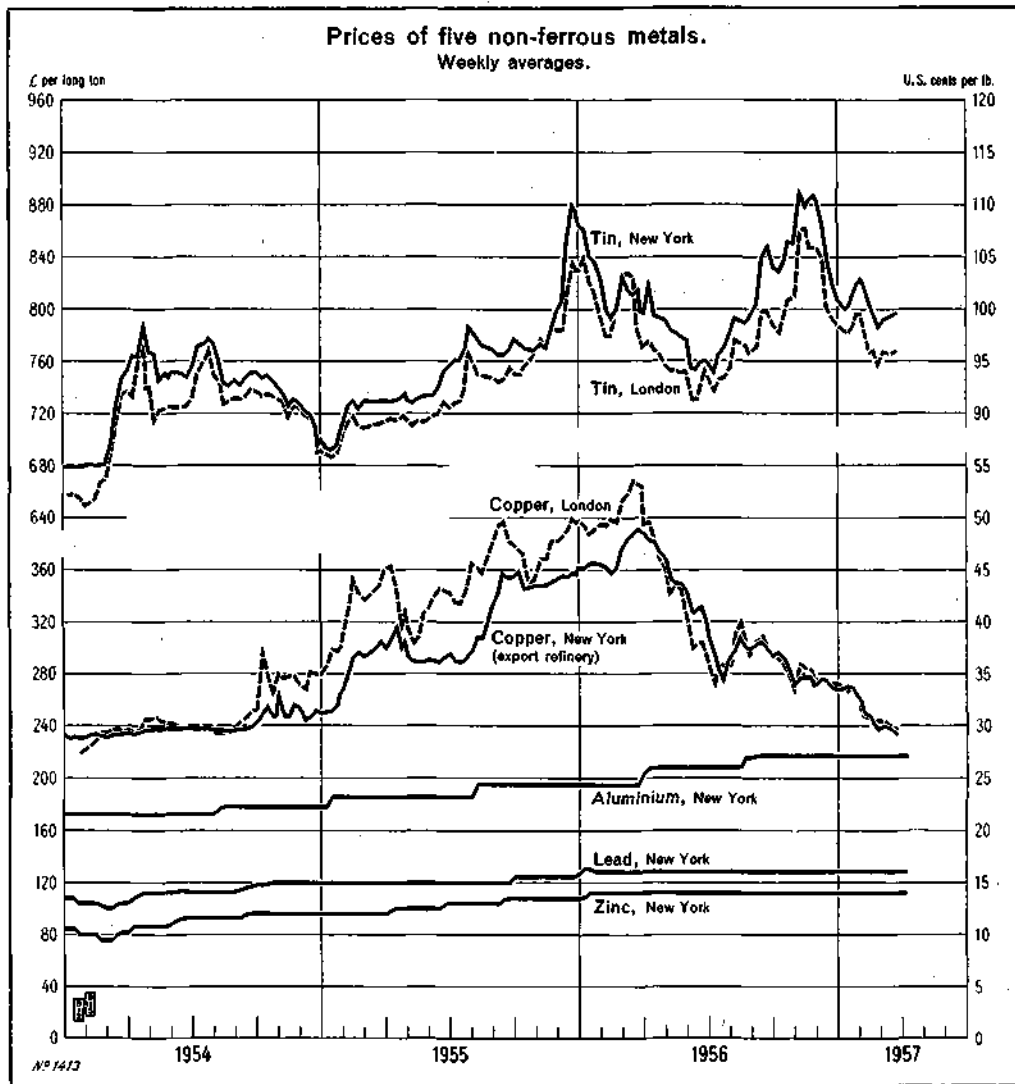
* Including shale oil and natural gasoline.

with the growth of industrial output, having been in 1956 some 25 per cent. above the level of 1953 and over 7 per cent. above that of 1955. The greatest advance in the last three years was achieved in the Middle East and Venezuela, where production increased in each case by slightly over 40 per cent. In 1956, however, production in the Middle East expanded by only 6.2 per cent., compared with an increase of 15 per cent. in Venezuela. In the United States output rose by 5.4 per cent. — a higher rate of growth than that achieved in previous years. These relative shifts in production are largely a reflection of the Suez crisis, which greatly affected the production, distribution and price of oil.

Roughly two-thirds of Europe's consumption of oil products was previously covered by crude-oil supplies coming from the Middle East through the Suez Canal or through pipe-lines. When these supplies were cut off or had to be shipped around the Cape of Good Hope it became necessary to replace Middle East supplies by additional deliveries from the western hemisphere — in particular from the United States and Venezuela. Exports from the United States were stepped up from 0.2 million tons a month before the crisis to 2.5 million tons by January 1957 and exports from Venezuela from 2 to over 3 million tons, in spite of the shortage of tankers. Between the end of October 1956, when the Canal and the pipe-lines were closed, and February 1957, deliveries to western Europe, plus Europe's own production and drawings from stocks, enabled an average of about 80 per cent. of normal requirements to be met, and the corresponding figure for March was estimated at over 90 per cent. On the demand side economies were made by rationing in some countries and by the use of substitutes for fuel oil; thus the oil shortage did not have the adverse effect on the general level of production which had been anticipated.

Prices for fuel and for the heavy crude oils began an upward movement in November 1956. Both in the United States and in the Caribbean area prices were raised repeatedly up to the beginning of February, when the general upward movement — at least for the time being — came to an end. Since then up to the time of writing price changes have on the whole been confined to adjustments in the prices for different qualities.

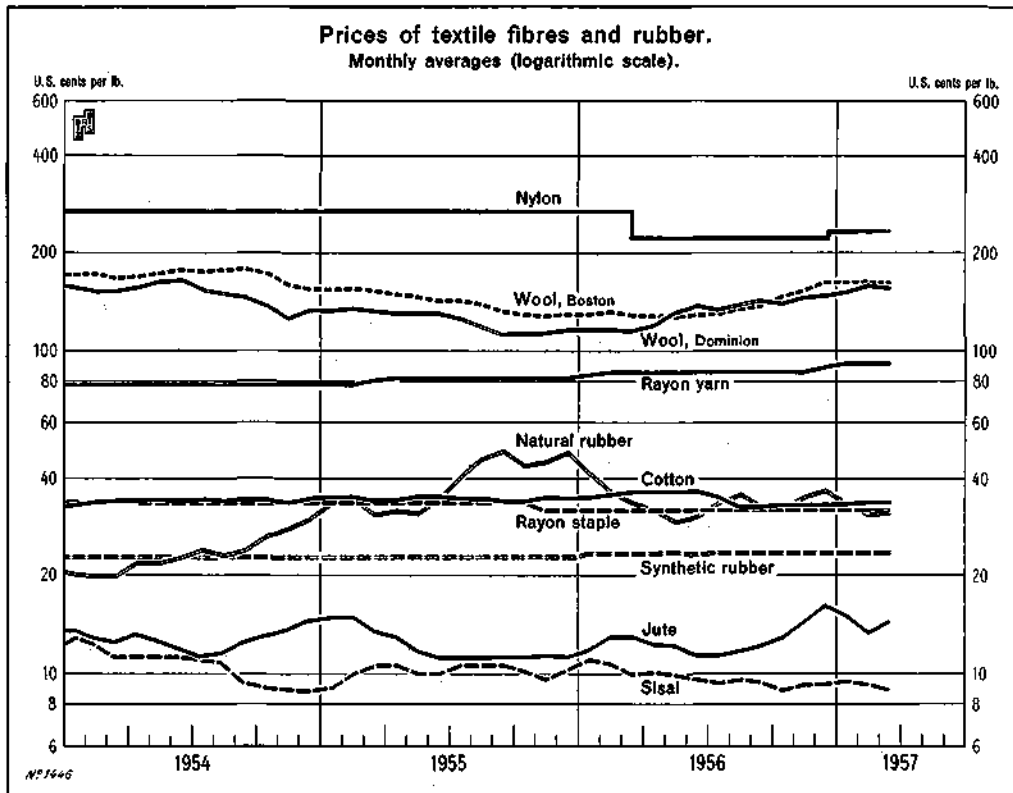
Among the non-ferrous metals, copper and tin have experienced wide price fluctuations in the past two years. The price of copper, after roughly a year of relative stability, resumed its upward trend in the second half of 1954, which carried it from £237 per long ton (average price for August 1954) to £437 on 19th March 1956 — the highest level it had ever reached. From that date onwards the price decline began and it continued — with only one major interruption after the nationalisation of the Suez Canal — down to the level of £236, which was reached towards the end of March 1957, by which time it had fallen by 46 per cent. Increased production and unloading of stocks by the British Government and a decline in demand from the American and British motor-car industries were the main factors responsible for the sharp price fall in 1956.



Like the price of copper, the price of tin, which at the end of 1955 had reached a record level of roughly £840 per long ton, fell during the first half of 1956, and around the middle of July it stood at £746. In the second half of 1956 the price climbed sharply and at the height of the Suez crisis (normally two-thirds of tin shipments pass through the Suez Canal) it even exceeded its previous peak, but then it declined again and by April 1957 was down to £769. Tin is the only metal the production of which has fallen compared with the pre-war period owing partly to new technical inventions and partly also to the emergence of new substitutes. In view of the fundamentally weak position of tin, a buffer-stock agreement was drafted as long ago as 1953. It came into effect in 1956 and in March 1957 the Tin Council raised the floor price from £640 to £730, leaving the maximum price unchanged at £880. It remains to be seen whether the management of the buffer stock will have to accumulate tin in order to

prevent, as it undoubtedly can do for a while, the price from falling below the floor level.

Rubber prices fluctuated within wide limits in 1956. In the summer and early autumn of 1955 the rubber market had passed through a great boom phase. In the middle of September 1955 the London spot price for first-grade plantation rubber had advanced to 43³/₄d. per lb.; by the end of May 1956 it had fallen to 21³/₄d. — the lowest price in that year. The Suez crisis caused a rally (some 80 per cent. of the world's rubber passes



through the Canal), but by March 1957 the price had again fallen to 26³/₄d. The high price of natural rubber in the summer of 1955 — connected with the expansion of the motor-car industry in that year and heavy Soviet purchases — had caused many users to shift to synthetic rubber wherever possible. This and the decline in American and British motor-car production are the main underlying causes of the setback suffered by rubber prices in 1956. It is significant that world production of natural rubber, which had still been expanding in 1955, was somewhat smaller in the following year, whereas production of synthetic rubber continued its expansion in 1956, though on a reduced scale (see table on page 115).

Major changes occurred during 1956 in the market for raw cotton. In the course of the year the U.S. Government, which had earlier accumulated large stocks, began to liquidate them at competitive prices, a move

which resulted in a downward adjustment of international raw-cotton prices, though not of those on the U.S. domestic market. Up to the end of 1956 the Commodity Credit Corporation had sold 6.2 million bales — virtually the entire government-owned stock accumulated under the support programmes. Payment was made by the purchasing countries mainly in local currency. As a result of these liquidations American middling cotton of $16\frac{1}{16}$ inch staple was available throughout 1956 at around 25 cents per lb. plus freight, compared with 33.70 cents in December 1955.

By way of contrast, raw wool prices made in 1956 their first major and sustained recovery since the spring of 1954 and, although they ended the year on a slightly easier note, the prices for all grades and qualities, compared with the closing prices for 1955, showed net gains ranging (according to type) from 10 to more than 25 per cent. The monthly average price (British auctions) for a representative group of 64's merinos had stood at 99d. per lb. in December 1955, 127d. in December 1956 and 133d. in March 1957.

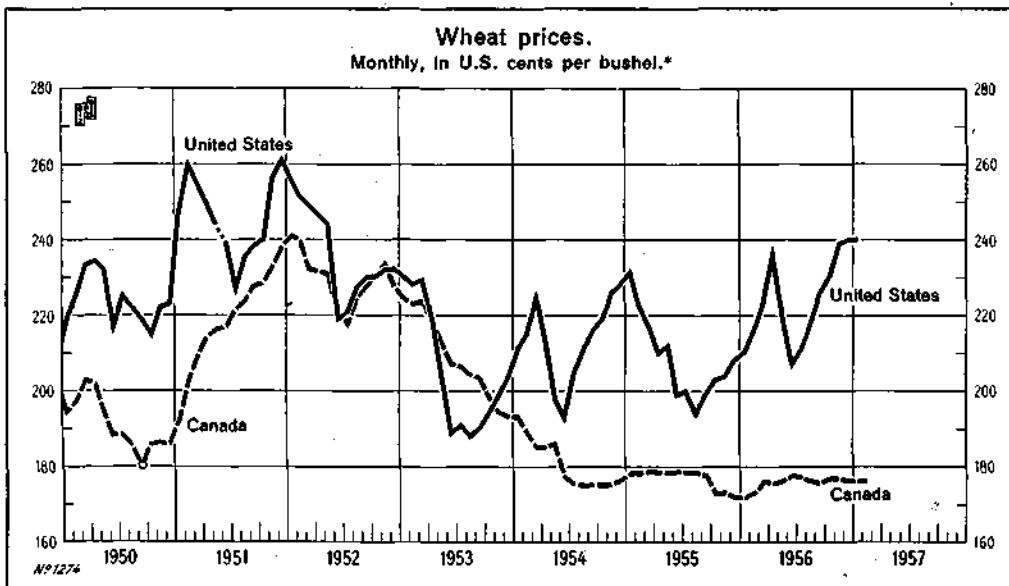
Among basic foodstuffs, the market for wheat underwent widespread changes in 1956. Whereas in 1954 and 1955 the trend of American wheat prices (apart from seasonal variations) had been roughly stable, it was definitely rising in 1956. At the end of 1956 and early in 1957 the wheat price in Chicago stood at around \$2.40 per bushel as against \$2.10 at the end of December 1955, whereas Canadian wheat was a few cents below its end-of-1955 level. There were major shifts in supply and demand and, in the sphere of policy, special mention should be made of the changes which took place in the domestic wheat policy of the United States and the conclusion of a new International Wheat Agreement.

The change in the price trend was touched off by the severe frosts in Europe in February 1956, which did serious damage to crops in many countries,

World production of wheat.

Countries or areas	1934-38	1948-52	1953	1954	1955	1956
	in millions of metric tons					
Four big exporting countries						
United States	19.5	31.0	31.8	26.8	25.4	27.1
Canada	7.2	13.4	16.7	8.4	13.4	14.6
Argentina	6.6	5.2	6.2	7.7	5.3	7.1
Australia	4.2	5.2	5.4	4.6	5.3	3.4
Total for the four big exporting countries	37.5	54.8	60.1	47.5	49.4	52.2
Europe including Turkey	45.7	46.1	54.7	51.0	56.0	49.0
U.S.S.R.	38.1	40.5	43.0	44.0	44.0	52.0
China	22.8	22.5	22.5	24.0	24.0	26.0
Others	23.4	23.6	26.7	29.5	29.6	27.8
World total	167.5	187.5	207.0	196.0	203.0	207.0

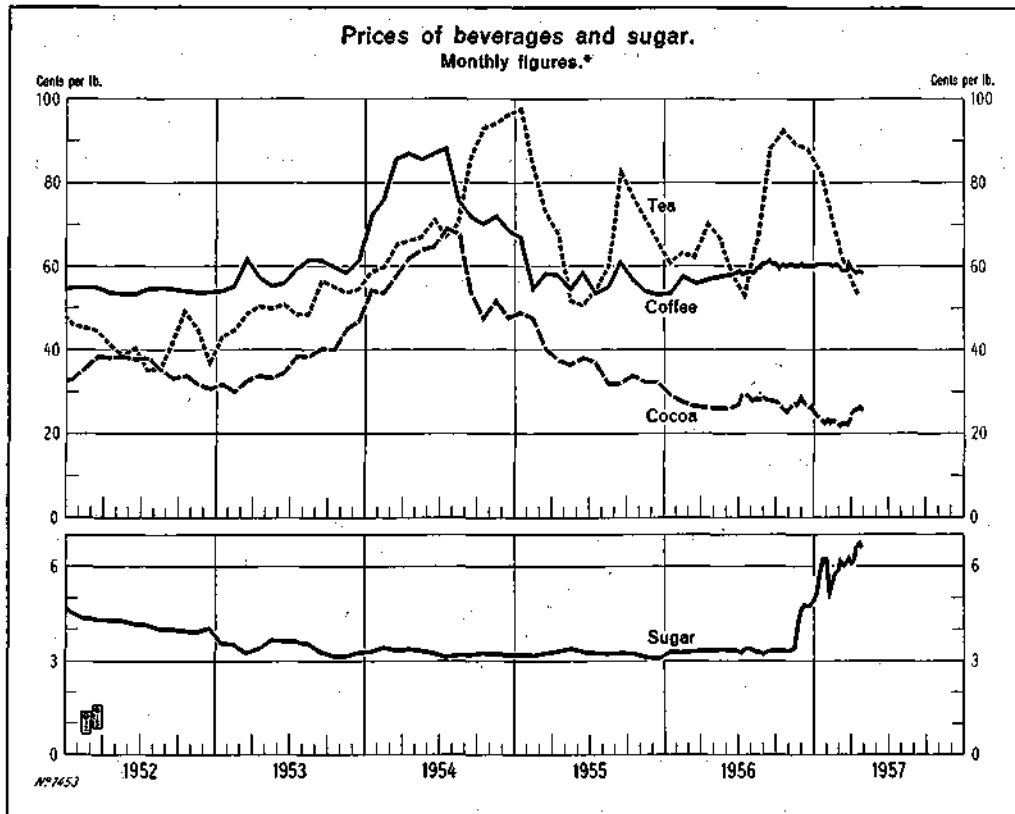
particularly in France, where the crop was almost halved. As it turned out, the total world crop was nevertheless still roughly equal to that of 1955, but there was a marked shift in its geographical distribution (see table on page 112). There were heavy crops in the Soviet Union, North America and some Asiatic countries, but in Australia and in Europe as a whole the results of the harvest were poor. Another factor influencing the price was the prospect that the soil-bank scheme initiated under the U.S. Agricultural Act of 1956 would reduce the U.S. wheat crop in 1957 by as much as 175 to 200 million bushels. This new plan and the withdrawal in September 1956 of the state-owned Commodity Credit Corporation from the "commercial" (as distinct from the purely political) export business in wheat represented the most important national policy measures affecting the international wheat-market position in 1956. On the international plane they were supplemented by the conclusion of a new three-year International Wheat Agreement, which came into force on 1st August 1956. The attempt to induce the United Kingdom, the world's foremost wheat-importing country, to become a party to it again proved unsuccessful. Among the exporting countries, on the other hand, the Argentine joined the new agreement, and so did Sweden, which in recent years has been transformed from a wheat-importing into a wheat-exporting country. The quotas under the new agreement total 8 million metric tons, compared with the 10.75 million tons covered by the 1953 agreement, and the price range now extends from \$1.50 to \$2 per bushel, compared with \$1.55 to \$2.05 under the previous agreement. In the first few months of 1957 the U.S. price for wheat eased again somewhat. It fell from \$2.40 per bushel at the end of 1956 to \$2.24 at the end of March 1957, at which date the price for Canadian wheat was U.S. \$1.76 per bushel. The U.S. Secretary of Agriculture



* The wheat prices shown in the graph are the cash prices at Chicago (U.S.A.) for No. 2 Red Winter (up to June 1951, No. 2 Hard Winter) and the Winnipeg (Canada) prices for Class II No. 1 Northern, in store Fort William/Port Arthur.

has fixed the Federal support price for the 1957-58 wheat crop at \$1.78 a bushel, a reduction of 22 cents on the national average support rate in 1955-56 and 1956-57.

On the world market the sugar price went up in 1956, particularly towards the end of the year, which closed with the world spot price standing at 4.90 cents per lb., after having reached a peak of 5 cents on 28th November — the highest level since October 1951. In the early months of 1957 even this figure was exceeded, and at the end of March 1957 the price had reached 6.10 cents. The average world spot price for 1955 had been 3.24 cents. The International Sugar Council's first estimate of world-market requirements in 1956, at 4.52 million metric tons, had been 170,000 tons lower than the final estimate for 1955; but during the year it was raised several times and the first estimate of requirements in 1957, at 5,325,000 tons, is by far the highest since the implementation of the International Sugar Agreement in 1953. Early in 1957 the growing demand for sugar was increased by large orders placed by the U.S.S.R., partly as a result of the decline in Polish sugar exports to the Soviet Union. By the end of March the U.S.S.R. had bought a total of 458,000 tons. These purchases undoubtedly contributed to the further sharp price rise in the early months of 1957. The International



* Weekly figures from July 1956, except for tea.
Note: Spot prices in New York for Santos No. 4 coffee and Accra cocoa; auction price in London for northern Indian tea; world contract No. 4 in New York, duty unpaid, for sugar.

Sugar Agreement of 1953 has been amended by a protocol which became operative on 1st January 1957. It provides for special procedures if the price falls to between 3.15 and 3.25 cents or rises to between 3.45 and 4.00 cents. These new procedures will no doubt be put to the test in 1957, as the price has already shot up far above the upper limit under the revised "zoning" arrangement.

Cocoa prices continued to fall sharply in 1956 and the early months of 1957. The London price, which at the end of December 1955 had stood at 244s. 6d. per cwt, had fallen by the end of 1956 to 192s. 6d. and by the end of March 1957 to 178s. 9d.; in April, however, it recovered somewhat. There are two reasons for this development: on the one hand, world consumption has not yet recovered from the setback caused by the excessive prices during the 1953-54 cocoa boom, and manufacturers, who lost large sums on their stocks between 1954 and 1955, have remained very cautious in their approach to the market; on the other hand, world production of cocoa has taken a sharp turn for the better during the past two seasons and is likely to establish a new record in 1956-57. The movement of the price of cocoa in 1956 was in contrast to the relative stability of the price of coffee.

Estimates of world production of basic commodities.

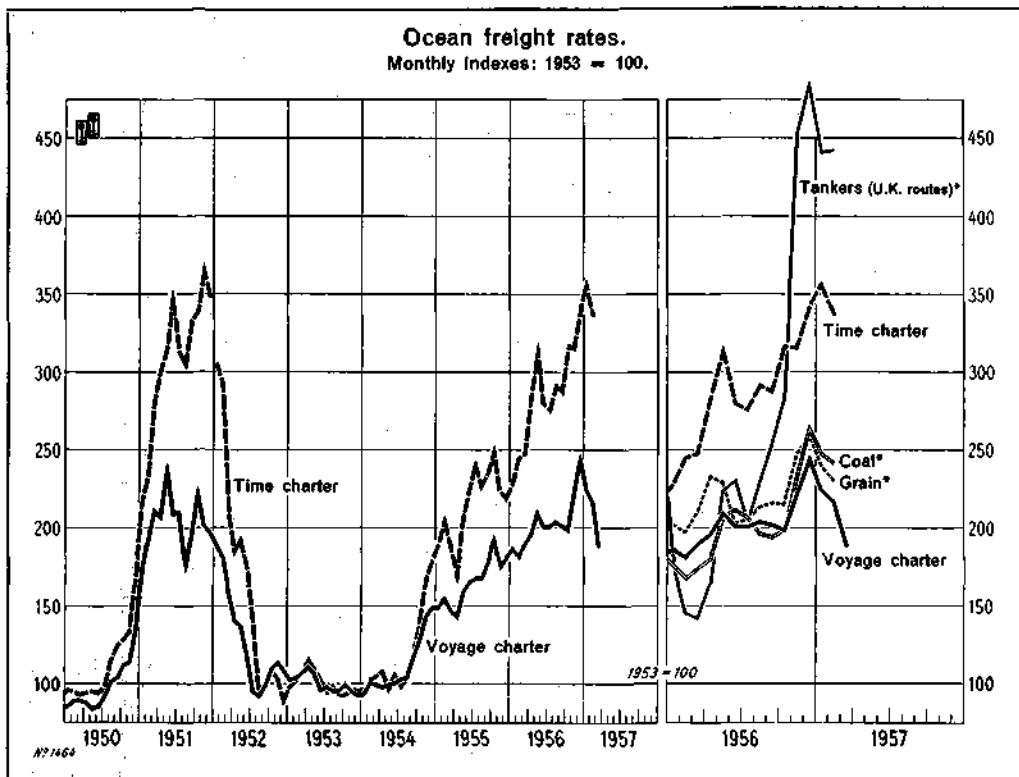
Commodities	Unit ¹	1937	1946	1950	1953	1954	1955	1956 (preliminary)	Percentage change 1956 over 1937
Aluminium ² . . .	1000 tons	493	774	1,507	2,453	2,808	3,106	3,327	+ 575
Electricity	milliard kwh	448	846	970	1,278	1,385	1,550	1,670	+ 274
Man-made fibres	1000 tons	827	793	1,661	2,069	2,263	2,532	2,689	+ 225
Crude petroleum	million tons	297	390	536	675	707	796	861	+ 200
Cement	million tons	82	75	133	177	193	214	230	+ 180
Rubber, natural .	1000 tons	1,229	851	1,890	1,755	1,830	1,943	1,903	+ 176
Rubber, synthetic	1000 tons	63	940	785	1,314	1,098	1,511	1,660	+ 129
Brown coal	million tons	251	275	381	472	491	536	576	+ 111
Nickel ³	1000 tons	119	118	149	204	221	240	251	+ 107
Steel	million tons	136	112	189	235	224	270	282	+ 100
Manganese ore . .	1000 tons	5,997	4,500	7,600	11,500	10,600	11,600	12,000	+ 92
Tungsten (60 ² / ₃ WO ₃)	1000 tons	39	19	39	73	70	72	75	+ 92
Pig Iron	million tons	104	80	134	170	160	190	200	+ 85
Soya beans	million tons	13	15	18	17	20	21	24	+ 76
Zinc ²	1000 tons	1,636	1,405	2,060	2,402	2,454	2,724	2,871	+ 61
Copper ⁴	1000 tons	2,534	2,089	3,172	3,391	3,464	3,815	4,072	+ 50
Sugar	million tons	30	26	36	41	41	42	44	+ 43
Mercury	tons	4,590	5,260	4,937	5,510	6,089	6,504	6,550	+ 37
Lead ²	1000 tons	1,692	1,154	1,836	2,002	2,125	2,160	2,326	+ 34
Maize	million tons	128	132	131	148	152	165	172	+ 33
Rice, rough	million tons	150	142	154	193	188	199	200	+ 32
Wool, greasy	million lbs	3,790	3,784	4,061	4,531	4,611	4,810	4,990	+ 30
Coal	million tons	1,297	1,220	1,450	1,500	1,480	1,600	1,690	+ 29
Oilseed crops ⁵ . .	1000 tons	12,045 ⁶	11,905 ⁷	13,105	14,485	14,695	15,105	16,270	+ 20
Animal fats ⁸ . . .	1000 tons	9,420 ⁶	8,270 ⁷	9,525	10,380	10,715	11,015	11,380	+ 16
Wheat	million tons	172	155	191	207	196	203	207	+ 0
Coffee, green	million bags	41	35	38	44	42	50	48	+ 8
Cotton	million bales	39	22	29	39	39	40	38	+ 0
Tin ²	1000 tons	205	107	187	195	200	194	188	- 8

¹ Tons are metric tons.
⁴ Refinery production.

² Smelter production.
⁵ Oil equivalent.

³ Metal content of mine production.
⁶ 1935-39 average. ⁷ 1945-49 average.

The market for freight had been booming ever since the second half of 1954. Apart from seasonal fluctuations, both time and single-voyage charter rates had been rising rapidly until the Suez crisis. Around the middle of 1956 the index for dry-cargo time-charter rates was roughly 175 per cent. higher than it had been in the middle of 1954 and the index for single-voyage rates about 100 per cent. higher. The main reason for this rise was the heavy demand for shipping space for the purpose of transporting a continuously increasing amount of coal from the United States to Europe. The Suez crisis caused a further upward movement, which by the end of the year had raised both indexes to roughly 20 per cent. above their mid-1956 levels. Round about the turn of the year, however, the rates began to fall sharply. The movement of individual single-voyage rates varied a good deal. Thus the rate for grain from U.S. Gulf ports to Antwerp or Hamburg, which had been \$11.75 per ton in March 1956, reached a peak of \$20 towards the end of the year but by the end of March 1957 had fallen back to \$12.50, and the freight on cargoes of crude petroleum from the U.S. Gulf to the United Kingdom, which had been over £8 per ton at the peak of the freight boom caused by the Suez crisis, had dropped again to £3 per ton by early April. These spectacular movements of single-voyage tanker freight rates should not, however, be regarded as being representative of the development of the average cost of shipping oil, since they apply to no more than one-tenth of



* Voyage-charter rates.

Note: U.K. Chamber of Shipping Indexes, except for time charter 1950-51 and tanker freights from the beginning of 1956, which are from the Norwegian Shipping News.

the world tanker tonnage. About one-half of all tankers are owned by the oil companies themselves and the remaining 40 per cent. of tanker tonnage is running under long-term charter. Thus, if due weight were given to the various rates applying to oil shipments it would appear that average shipping costs for oil fluctuated much less than single-voyage rates.

In order to evaluate the importance of freight rates from the point of view of the consumer it is, of course, necessary to know what percentage of the price of a commodity at the place of delivery is accounted for by freight. It was pointed out above that the price of U.S. coal at European ports contains a very high component of freight costs — amounting to roughly 50 per cent. (including freight in the United States). The corresponding proportion for Canadian wheat in Europe is about 20 per cent. For all other commodities — with the exception of oil — this proportion was below 10 per cent., even at the peak of the freight boom.

* * *

Turning now to an examination of conditions in the various countries in 1956, as reflected in the overall indexes of wholesale and retail prices, the general impression gained is very different not only from that conveyed by the development of prices of raw materials in 1956 but also from that given by the movements of the same two indexes in the preceding year. In 1956 the upward tendency shown by the national indexes became more marked and more generalised, as will be seen from the table on the next page.

This is not to say that the degree of the price rise is now everywhere the same. On the contrary, in 1956 it ranged, in terms of the cost-of-living index, from 16.8 per cent. in Finland to 1.2 per cent. in France and Greece and, in terms of the wholesale-price index, from 14.3 per cent. in Spain to 0.6 per cent. in Ireland. In most countries the largest price rises occurred in the early part of the year and in the last quarter.

In some cases these price indexes need to be interpreted with a certain amount of caution. In Chapter I reasons were given why the cost-of-living index is an unreliable measure of the pressure of aggregate demand. And the movement of wholesale prices also does not always reflect the degree of inflation, particularly if the government decrees a general price stop, as was done in several countries during the year. In France the prices of industrial products were frozen at the levels reached on 15th June 1956. In Belgium a price and wage stop was introduced in October 1956. In Finland, too, a price stop was imposed in October 1956 with a view to limiting trade union demands for higher wages. Iceland froze prices at the end of August 1956 for a period of four months, which was later extended. And in Luxemburg it was decreed that, as from 1st April 1956, producers and importers must obtain official permission before raising prices. It should also be taken into account that in certain countries, such as Germany and the Netherlands, the general price level three years ago was well below that in most other countries.

Rise in cost of living and wholesale prices.¹

Countries	Cost of living				Wholesale prices			
	1954	1955	1956	1954-56	1954	1955	1956	1954-56
	in percentages							
Austria	3.0	2.7	2.9	8.8	7.8	- 2.4	7.3	13.0
Belgium	- 0.2	1.8	3.2	4.6	- 0.2	2.7	3.8	6.3
Denmark	3.2	5.7	4.1	13.6	3.6	4.0	3.9	12.0
Finland	- 3.9	3.1	18.8	15.7	- 1.5	1.0	9.1	8.5
France	2.0	1.0	1.2	4.2	- 2.0	1.8	4.8	4.6
Germany	2.8	1.8	1.8	6.5	2.5	3.2	2.3	8.3
Greece	7.4	5.9	1.2	15.1	5.9	8.1	4.7	19.8
Iceland	1.9	8.7	6.9	17.7				
Ireland	0.8	4.0	2.3	7.2	- 0.9	4.7	0.6	4.3
Italy	3.6	3.0	4.2	11.1	1.8	0.3	1.1	3.3
Netherlands	5.0	- 0.9	4.8	8.9	1.5	0.7	5.1	7.6
Norway	5.1	- 0.7	4.9	9.5	3.0	2.9	5.7	12.1
Portugal	1.4	2.5	1.6	5.6	- 0.9	2.8	4.5	8.4
Spain	3.3	4.2	8.4	16.7	2.4	5.0	14.3	22.9
Sweden	0.8	6.2	3.6	10.9	1.0	7.4	2.2	10.8
Switzerland	1.8	0.4	2.2	4.3	2.7	- 0.5	4.5	6.7
United Kingdom	3.6	6.2	3.2	13.6	1.2 ²	4.9 ²	3.8 ²	10.2 ²
Canada	0.6	0.3	3.0	4.0	- 1.6	2.8	3.0	4.2
United States	- 0.5	0.3	2.9	2.7	- 0.5	1.6	4.5	5.6
Japan	- 1.4	- 0.3	3.2	1.4	- 4.6	- 0.2	8.7	3.5
Australia	0.3	4.4	6.1	11.0	0.0	3.1	4.3	7.5
South Africa	4.0	1.9	1.9	8.0	0.9	4.1	1.5	6.6

¹ From December to December.

² Manufactured goods.

If the cost-of-living index is split up into its component parts it is found that no generalisation is possible with respect to the movements in the prices of these components in the various countries. These are shown for a certain number of countries in the table on page 120. As far as the cost of food is concerned, the countries mentioned in the table above fall into three distinct groups. In the first group the cost of food rose distinctly less than the total cost of the consumption basket; this is true of Denmark, France, Iceland, Italy, Sweden, the United Kingdom and Ireland (in which country it actually fell). In the second group — Austria, Belgium, Germany, Greece, Norway, the United States and Japan — food prices rose roughly proportionally to the cost-of-living index, and in the third group — Finland, the Netherlands, Portugal, Spain, Switzerland and Canada — they rose distinctly more. Whether this more than proportional rise has benefited distributors or farmers is a question which can only be answered by a detailed study of the conditions in each country.

The second most important item, namely rent, which in 1956 was almost everywhere still officially controlled, shows at one extreme — notably in the case of Sweden — hardly any increase at all and at the other an increase far in excess of the general rise in the cost of living. This applies particularly to France and Italy, where rents are being allowed to rise in order

to bring them gradually nearer to their true market value. Even so they are still far from having caught up with the general price rise that has taken place since the beginning of the second world war. This is also true of the other countries included in the table. In Austria, France, Italy, the Netherlands and Norway blocked rents have since 1938 risen only half as much, or even less than half as much, as the cost-of-living index. In Belgium, for which no rent index exists, less than 10 per cent. of the existing dwellings were still rent-controlled in 1956, and by the end of 1957 rent control will have been abolished altogether. In Switzerland, in the case of which the

Rents in relation to the cost of living.

Countries	Years	Rent	Cost of living ¹	Rent	Cost of living ¹
		Annual average index:			
		1938 = 100		1948 = 100	
Austria	1938 ²	100	100	95	31
	1948	105	321	100	100
	1956	341	712	325	222
Denmark	1938	100	100	84	60
	1948	120	167	100	100
	1956	167	228	140	137
Finland	1938	100	100	69	13
	1948	145	793	100	100
	1956	819	1,197	565	151
France	1938	100	100	44	6
	1948	230	1,645	100	100
	1956	1,385	2,711	602	165
Germany	1938	100	100	96	59
	1948 ³	104	169	100	100
	1956	123	177	118	105
Italy	1938	100	100	27	2
	1948	365	4,844	100	100
	1956	2,667	6,266	734	129
Netherlands	1938	100	100	100	49
	1948	100	205	100	100
	1956	145	281	145	137
Norway	1938	100	100	108	63
	1948	94	159	100	100
	1956	116	235	123	148
Sweden	1938	100	100	93	64
	1948	108	167	100	100
	1956	146	222	135	141
Switzerland	1938	100	100	96	61
	1948	104	163	100	100
	1956	130	175	125	108
United Kingdom	1938	100	100	92	71
	1948	109	141	100	100
	1956	138	203	127	144
United States	1938	100	100	86	59
	1948	118	170	100	100
	1956	153	193	132	113

¹ Including rent. ² April. ³ Second half of year only.

index used in the table represents a weighted average of blocked rents on old houses and free rents on new ones, blocked rents are only 15 per cent. above the 1938 level, whereas free rents have roughly doubled. Clearly, house-owners are still almost everywhere among those who have suffered most from the inflation.

The prices of light and fuel increased in almost all countries more than the general cost of living, the main exception being France, where they fell as a result of the government's efforts to keep the cost-of-living index down. But it should be remembered that in most countries these prices, like rents, are still far from having caught up with the general price rise since the war. The price of clothing everywhere lagged behind the general rise in the cost of living. Services have become more expensive; in those countries in which services are shown as a separate item — Belgium, France and the United Kingdom — their cost has clearly risen more than the total cost of living, and it is fairly safe to assume that this was also the case in most of the other countries.

Rise in the components of the cost-of-living index in 1956.

Countries	Total index	Food	Rent	Light and fuel	Clothing
	In percentages				
France	1.2	0.2	10.1	- 4.3	1.1
Germany	1.8	1.7	1.7	3.1	1.0
Italy	4.2	3.6	17.6	3.4	0.6
Netherlands	3.7 ¹	6.5	3.5	7.3	2.4
Sweden	3.6	1.3	0.7	18.7	0.0
Switzerland	2.2	2.8	2.5	5.9	- 0.4
United Kingdom	3.2	0.9	5.9	6.0	1.6
United States	2.9	3.1	2.4	6.3 ²	2.2

¹ Excluding taxes.

² Fuel.

Developments at the wholesale-price level differed somewhat in 1956 from those at the retail-price level, the differences being largely due to the fact that cost-of-living indexes include services and were, in addition, influenced by the relaxation of rent controls and other administrative measures — factors which do not influence the wholesale-price indexes. In the United States wholesale prices have risen over the last three years by 5.6 per cent., which is less than the increase in most European countries. In two European countries (France and Italy) increases in wholesale prices have been smaller than in the United States.

A detailed analysis of the various sub-groups of the wholesale-price indexes is much more difficult than in the case of the cost-of-living indexes, since there is little uniformity in the construction of such indexes. Generally speaking, however, it may be said that prices of industrial raw materials and semi-manufactured goods rose in most countries more than those of finished goods, as is shown in the case of France, Germany, Italy and the United Kingdom in the graph on page 123.

Various other trends — to some extent contradictory — are observable. In a few countries, particularly Finland and Norway, wholesale prices of agricultural products rose more than those in the industrial sector. In most European countries, on the other hand, there is a greater increase in prices of industrial raw materials and/or manufactured goods. This tendency became much more pronounced in the first quarter of 1957. In the United States agricultural prices rose more than those of manufactures, but slightly less than the prices of raw materials.

By far the most decisive price relationship is that between wages and commodity prices. The following table shows for the western European countries and also for Canada and the United States the rise in money wages during the last three years and also the cumulative rise in the three-year period as a whole. In the case of France and Sweden the annual increase was fairly even and works out at about 8 per cent. In most of the other countries there was a clear tendency for the rise in wages to gather speed. In a few exceptional cases, however, such as those of Austria and, particularly, the Netherlands, the main wage increase took place in 1954. In all the countries wages rose faster than the cost of living, so that real wages rose everywhere. The greatest rise in real wages over the three-year period occurred in France, with 20.6 per cent., and the smallest in Denmark and Switzerland, with 1.2 and 1.6 per cent respectively. In the United Kingdom, where money wages rose by 20.3 per cent., real wages increased by only 5.9 per cent., while in Germany, where the rise in money wages was only a little smaller than in the United Kingdom, real wages increased by 12.1 per cent. In the United States money wages increased by 13.9 per cent. and real wages by 10.9 per cent.

Increases in hourly wage rates.¹

Countries	Nominal wages				Real wages
	1954	1955	1956	1954-56	1954-56
	in percentages				
Austria	7.6	4.5	4.8	17.8	8.3
Belgium	2.8	4.3	6.9	15.0	9.9
Denmark	4.6	5.8	4.1 ²	15.0 ³	1.2
Finland ⁴	2.6	5.3	13.3 ²	23.1 ³	6.4
France	8.2	9.2	6.4	26.7	20.6
Germany ⁴	3.5	6.9	7.9	19.4	12.1
Italy	5.6	1.8	7.4	15.4	3.9
Netherlands	15.3	0.7	5.3	22.1	12.1
Norway ⁴	5.5	3.9	11.5	22.2	11.3
Sweden ⁴	7.6	8.6	8.2	26.3	13.9
Switzerland	0.8	1.4	3.7	6.0	1.6
United Kingdom ⁵	4.3	6.9	7.8	20.3	5.9
Canada ⁴	1.7	3.3	7.1	12.5	8.2
United States ⁴	1.7	5.5	6.2	13.9	10.9

¹ From December to December or fourth quarter to fourth quarter.
² Fourth quarter 1955 to third quarter 1956. ³ Fourth quarter 1953 to third quarter 1956.
⁴ Hourly earnings. ⁵ Weekly wage rates.

Wage indexes do not give information about the absolute wage level. It is possible, however, on the basis of calculations made by the International Labour Office of earnings in European manufacturing industry, with and without social payments, to compare wages in different countries. The Swiss wage level is taken as 100 and the wages of other countries are expressed as percentages.

Hourly earnings differ greatly from one European country to another: the highest absolute level is that of Sweden; at the bottom of the scale come Austria, Italy and the Netherlands. But if social payments are added the disparity between countries narrows considerably; in other words, the cost

Cost of labour in Europe
(manufacturing industry).

Countries	Hourly earnings in 1954 (Switzerland = 100)	Social charges as percentage of wage	Cost of labour (Switzerland = 100)
Sweden	130	2.2	128
Finland	110	6.0	111
Denmark	104	7.5	108
Norway	101	3.7	101
Switzerland	100	3.9	100
United Kingdom	88	2.7	88
Belgium	75	17.7	88
France	73	29.8	92
Germany	68	11.7	75
Ireland	60	1.7	58
Netherlands	54	19.0	62
Austria	51	19.0	60
Italy	48	53.5	73

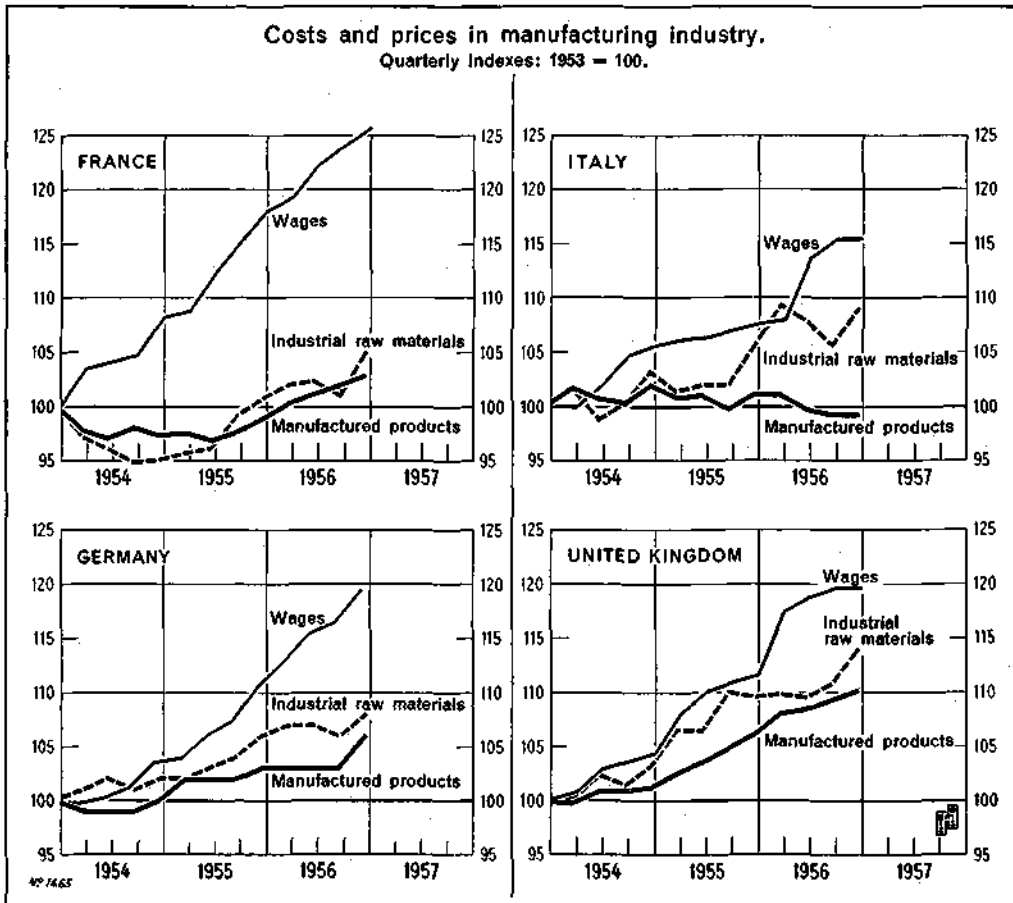
Note: Average hourly earnings in Switzerland in 1954 (Sw.fcs 2.56) are taken as 100. Obligatory social charges are expressed as a percentage of assessable wages at 1st January 1956. Sum of employers' contribution rates as at 1st January 1956 to insurance for old age, sickness, employment injury and unemployment and to family allowances. Cost of labour comprises wages plus obligatory social charges plus cost to employers of days off with pay. The aggregate figures in the final column, which have been computed by the International Labour Office, are no more than rough approximations. It is considered unlikely, however, that their relative magnitude is affected in any substantial degree by the difference in the dates to which the three sets of data refer.

Source: I.L.O., Social Aspects of European Economic Co-operation, 1956.

of labour in industry differs much less widely than hourly wage earnings. Very often a low level of hourly earnings is correlated with and compensated by a high percentage of ancillary benefits. Nevertheless, large discrepancies remain. Among the main industrial countries, Sweden has the highest labour costs, France, Belgium and the United Kingdom are slightly below Switzerland, and Germany and Italy considerably so, while Austria and the Netherlands are again at the bottom of the list.

Changes in money wages can be compared, as has been done on the preceding page, with changes in the cost-of-living index, i.e. in the prices of the goods and services which the wage-earners buy; or they can be compared with the prices of the commodities which the wage-earners produce. The first comparison gives a measure of the changes in the workers' standard of living;

the second measures wages as a real cost factor. The following graph illustrates the movement of wages and raw-material prices — the two most important cost factors — and of the prices of finished goods produced by manufacturing industry in some important countries. It will be seen that in all the four countries in question — France, Germany, Italy and the United Kingdom — wage rises by far outstripped the increase, if any, in the prices



Note: The figures for wages are based on hourly rates in the case of France and Italy, on gross hourly earnings in that of Germany and on weekly rates in that of the United Kingdom.

of finished goods. In Germany, Italy and the United Kingdom the price index for industrial raw materials was also above that for finished goods in the period 1954-56 taken as a whole, although there were periods within the three years when the former fell relatively to the latter, e.g. from September 1955 to June 1956 in the United Kingdom or from March 1956 to September 1956 in Italy. In France the prices of industrial raw materials and those of finished goods moved roughly in line with each other. The rise in the two cost factors, particularly that in wages, obviously made it necessary for the prices of finished products to be raised — though not to the same extent — in three of the four countries. These prices rose in the United Kingdom throughout the whole period 1954-56, in France

after the middle of 1955 and in Germany, apart from a rise at the end of 1954, only towards the end of 1956. In Italy, on the other hand, there was no increase at all in the prices of finished goods. The extent to which the rise in labour costs and the smaller rise in the cost of raw materials was "digested" by manufacturing industry itself or was passed on to the prices of finished goods thus varied a great deal from country to country, the differences being closely correlated with the development of productivity in the countries concerned.

A comparison between rises in hourly earnings and in productivity (see the table below) shows that in the United Kingdom productivity lagged behind hourly earnings, which explains the rising trend of prices for manufactured products throughout the period. They would undoubtedly have risen still more but for the fact that the prices of industrial raw materials increased less than wages. According to national income statistics, company profits rose in 1954 and 1955 but remained approximately stable — i.e. fell in real terms — in 1956. It is safe to assume that the movement in manufacturing industry alone was similar. This, then, would mean that it was only in 1956 that the rise in the prices of finished products was insufficient to compensate fully for the rise in costs, due allowance being made for changes in productivity.

Wages and productivity in manufacturing industry.

Country and year	Wages (hourly earnings)		Productivity (output per man-hour)	
	Index: 1953 = 100	Percentage increase over previous year	Index: 1953 = 100	Percentage increase over previous year
France				
1954	105.7	5.7	107.3	7.3
1955	113.4	7.3	116.0	8.1
1956	125.4	10.6	125.4	8.1
Germany				
1954	102.6	2.6	105.0	5.0
1955	109.5	6.7	112.8	7.4
1956	119.1	8.8	113.6	0.7
Italy				
1954	104.1	4.1	109.0	9.0
1955	110.5	6.1	117.0	7.3
1956	118.0	6.8	122.5	4.7
United Kingdom*				
1954	105.7	5.7	104.4	4.4
1955	114.5	8.4	108.3	3.7
1956	124.1	8.4	108.3	0.0

* Weekly earnings.

Turning to the other extreme — Italy, where the prices of finished goods did not rise at all — it will be seen from the table that in 1954 and 1955 the high rate of increase in productivity outweighed the rise in wages and still more that which would be shown by a combined index of

wages and raw-material prices. It is therefore not surprising that in these two years the prices of manufactured products remained approximately stable. In 1956 productivity did not quite keep up with wages but can hardly have lagged behind the combined cost of wages and raw materials.

In Germany productivity rose more than wages — let alone raw-material prices — in the years 1954 and 1955. In 1956, however, it practically ceased to rise, whereas hourly earnings increased by 8.8 per cent., while raw-material prices remained approximately stable. In the last quarter of 1956 the prices of manufactured goods rose sharply, mainly, no doubt, in consequence of the substantial wage increases granted during the year, which were no longer offset by increases in productivity. It is apparent from the national income statistics, however, that profits continued to rise in 1956 in terms of current values, though at a declining rate, and it is doubtful whether they rose in real terms. The rise in the prices of manufactured goods in the last quarter of the year was thus about sufficient to make up for the increase in costs but no room was left for a further increase in profits.

In France, too, productivity rose faster than wages in 1954 and 1955 but lagged behind in 1956. Around the middle of 1955, when both wages and raw-material prices turned sharply upwards, the prices of manufactured goods also started to rise slowly. Profits still continued to increase but, as in Germany, at a slower real rate, although they were kept up by a rather high level of protective duties.

* * *

While wages and, in general, profits, kept pace with or even outstripped the rise in prices, there were, nevertheless, numerous categories of people who fell victim to the inflation: in particular, pensioners, house-owners, certain types of unorganised labour and holders of fixed-interest-bearing securities.

The table on the next page shows the effect of the fall in the value of money on the position of investors in fixed-interest-bearing securities. A person who invested money in the United States in 1946 at the average rate applicable to long-term government bonds in that year in fact received over the years up to and including 1956, in terms of real purchasing power, a negative yield, since the average annual rate of depreciation of the value of money amounted to 3.7 per cent., whereas his annual yield was only 2.19 per cent. If he invested in U.S. Government bonds in 1949, his yield was positive but very small; the same applies to most other countries shown in the table. Investments made in 1946 gave, up to 1956, a positive, though small, yield only in Switzerland, and investments made in 1949 gave a positive yield only in Belgium, Italy, Switzerland and the United States. The rise in interest rates which took place everywhere in 1955 and 1956, on the one hand, and the measures taken to check inflation, on the other, justify a hope that not only the nominal money rate but also the real rate of interest will be positive in future.

Interest rates and the rate of depreciation of money.

Country	December, 1956		Annual rate of depreciation		Yield on government bonds		
	Indexes of the value of money *		1946-56	1949-56	Average 1946	Average 1949	December 1956
	1946=100	1949=100					
in percentages							
Belgium	67.2	64.8	4.3	2.3	4.17	4.61	4.42
Denmark	61.5	71.0	4.8	4.8	3.56	4.44	5.79
France	23.7	68.4	13.4	5.3	3.17	4.78	5.62
Italy	48.6	85.7	7.0	2.2	4.67	5.41	5.30
Netherlands	64.3	74.0	4.3	4.2	3.38	3.27	4.21
Norway	60.8	63.4	4.9	6.3	2.96	2.50	3.21
Sweden	60.2	68.1	4.9	5.3	3.01	3.02	4.05
Switzerland	87.0	91.2	1.4	1.3	3.10	2.94	3.22
United Kingdom	53.6	66.7	6.0	5.6	2.60	3.30	4.90
United States	69.2	85.8	3.7	2.2	2.19	2.31	3.43

* Calculated on the basis of the average of the wholesale-price and cost-of-living indexes. A similar table was presented in the Monthly Review of the First National City Bank of New York, December 1956.

It is of the utmost importance that the general rise in prices should come to a halt.

Firstly, as long as inflation continues the interest rate cannot properly perform its function of regulating the volume of investment. If business borrowers expect the real interest rate to be negative they will not hesitate to borrow funds even if the real return shown by their business is negligible or non-existent.

Secondly, the impact of a general price rise on different groups in the economy has radically changed compared with former inflationary periods. In previous times price inflations, despite their regrettable consequences from a social point of view, could at least be credited — as long as they were kept down to a "mild" pace — with the merit of forcing up the rate of saving and investment by virtue of the fact that their effect in discouraging personal saving was more than compensated by their effect in increasing business saving. The strength of this latter effect — which largely depended on the lag of wages behind prices — has already been diminished during the last decade by the spread of the practice of tying wages to the cost of living. The latest tendencies in wage policy presage a still further step away from the "traditional" pattern towards one in which wages may actually be the factor leading the inflationary process instead of the one which lags behind. The net effect of such a wage-led inflation on personal and business savings combined might clearly be adverse. The need to maintain an ample flow of savings by making certain that savers will receive a fair yield, in real terms, on their investments in money claims has thus become more urgent than ever.

V. Foreign Trade and Payments.

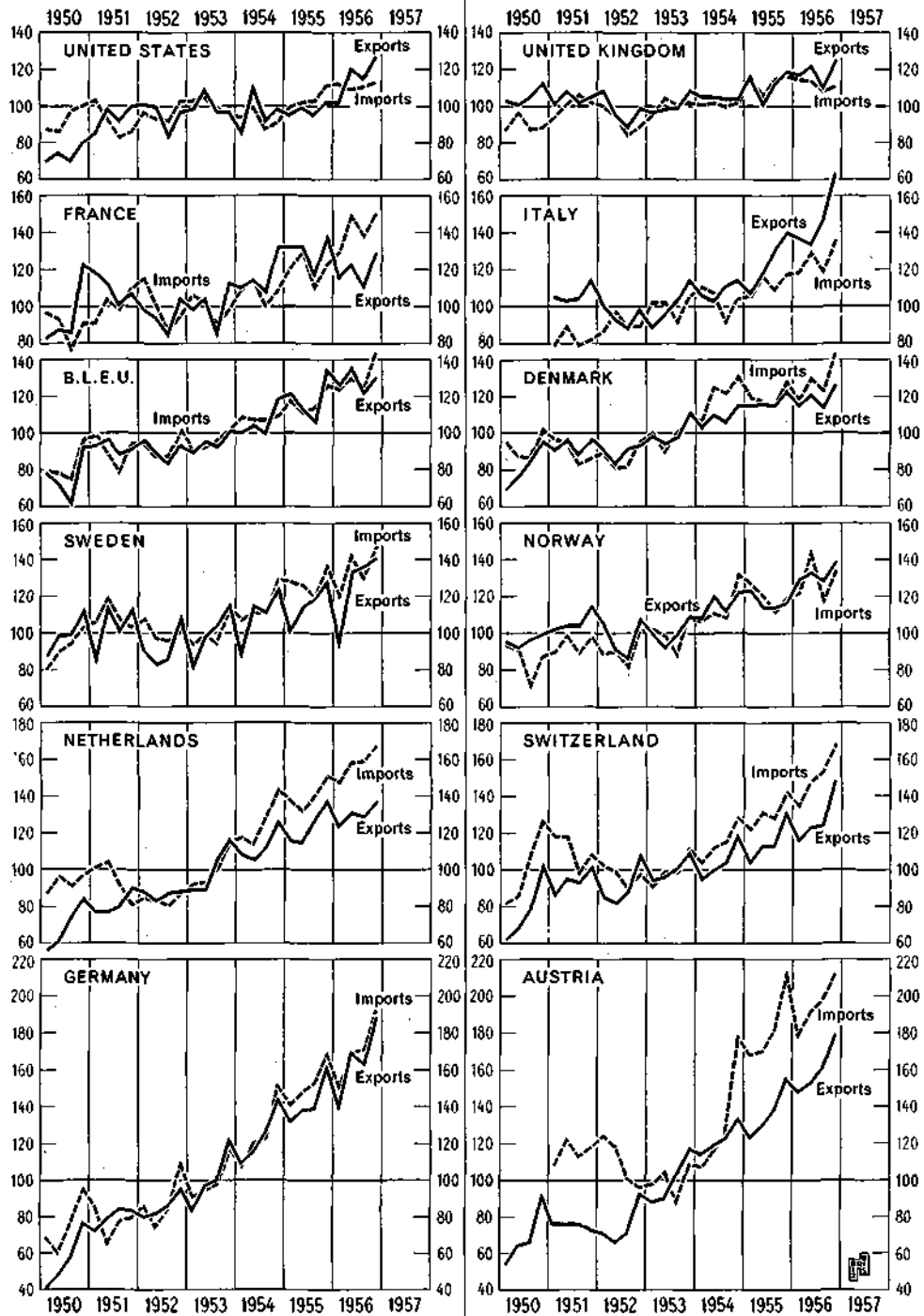
The marked upward trend in world trade that has been in evidence since 1953 continued in 1956. The total turnover of trade in 1956 was about 10 per cent. greater in money terms and about 7 per cent. greater in real terms than in 1955. In most countries the trade turnover rose more rapidly than the gross national product, this being largely a reflection of the scarcity of domestic resources at high levels of economic activity and the cumulative effects of the continuing trend towards liberalisation of trade and payments. As may be seen from the table below, all the principal geographical areas appear to have shared in the increase in trade turnover, but the gains recorded by the countries of continental western Europe and North America are particularly marked.

Turnover of world trade: Imports plus exports in terms of value.

Areas	1937	1950	1953	1954	1955	1956	Increase	
							1937-56	1950-56
							In milliards of U.S. dollars	
United Kingdom . . .	8.0	13.6	16.9	17.2	19.3	20.2	150	50
Rest of the sterling area	7.4	16.3	21.5	22.4	24.7	25.7	245	40
Total for the sterling area .	15.4	31.9	38.4	39.6	44.0	45.9	200	45
Continental O.E.E.C. countries	15.9	29.7	40.7	45.2	51.8	58.1	265	95
United States and Canada	9.0	26.2	37.0	35.1	37.9	44.3	390	70
Latin America	4.0	12.4	14.1	15.2	15.4	16.2	305	30
Other countries	7.2	15.9	21.0	22.0	24.0	26.2	265	65
World trade turnover . . .	51.5	116.1	151.2	157.1	173.1	190.7	270	65

In its broader aspects, the development of foreign trade in 1956 may be regarded as being in part a continuation of trends that have now been in progress for some years. The area which, according to the data above, has achieved the largest increase in trade turnover since 1937 is North America, whose trade had risen by 1956, in value terms, to a level almost five times as high as that of two decades earlier. This increase is also intimately connected with the growth in the trade of the Latin American countries, which as a group recorded the second largest rise over the period. The smallest gain among the groups shown in the table was that of the United Kingdom, the international position of which has undergone fundamental changes since the war. Finally, it is of interest to note that the trade turnover of the continental O.E.E.C. countries rose over the twenty-year period by almost exactly the same amount as did the total turnover of world trade.

Volume of foreign trade.
Quarterly indexes: 1953 = 100.



100 1954

Since 1950 the trade of the continental O.E.E.C. countries has expanded much more rapidly than that of North America, the United Kingdom, and the other regions included in the table. In 1956 the trade of the O.E.E.C. countries was (in money terms) approximately 95 per cent. above the 1950 level, compared with increases of about 50 per cent. for the United Kingdom, 70 per cent. for North America, and 65 per cent. for world trade as a whole. This trend is no doubt attributable in part to the fact that post-war recovery and reconstruction was held up by many delays and was extended over a protracted period. But the relatively rapid growth of the trade of the continental O.E.E.C. countries is also due to the fact that, as a result of a high average level of investment, domestic production has in recent years acquired a strong momentum of its own. The economic expansion of western Europe, moreover, could not have developed in this manner had it not been for the progressive liberalisation of trade and payments which accompanied it. The divergences since 1950 between the growth of the United States' and the United Kingdom's trade, on the one hand, and that of the trade of the continental O.E.E.C. countries, on the other, are shown in the graph on the preceding page.

A second tendency worth emphasising is that in recent years the trade of the O.E.E.C. countries (including the United Kingdom) with one another has risen even more than their trade with the outside world. Thus, in 1956 their exports to other countries in the O.E.E.C. area were 95 per cent. larger than in 1950, whereas vis-à-vis the rest of the world their exports had risen by 80 per cent. and their imports by 65 per cent. While this trend is to be explained partly by factors mentioned in the preceding paragraph, particular emphasis should perhaps be placed upon the fact that the liberalisation of intra-European trade was more extensive and proceeded more rapidly than the freeing of European trade vis-à-vis other areas.

Another facet of the evolution of the trade of the O.E.E.C. countries is illustrated in the table below, which shows the development of the shares of the main exporting countries in the growth of exports of manufactured products.

Exports of manufactured products by main exporting countries.¹

Areas	1937	1951	1952	1953	1954	1955	1956 ²
	as percentages of total						
United States ³	19.9	26.5	26.2	26.0	25.0	24.5	25.4
United Kingdom	21.9	22.0	21.5	21.2	20.4	19.7	19.3
Germany (Federal Republic)	22.8 ⁴	10.0	12.0	13.2	14.8	15.5	16.1
Other European countries ⁵	23.2	31.6	29.6	29.0	28.8	29.1	27.9
Canada	4.9	5.6	6.9	6.8	6.3	6.1	5.8
Japan	7.3	4.3	3.8	3.8	4.6	5.1	5.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹ Belgium-Luxemburg, France, Germany (Federal Republic), Italy, the Netherlands, Sweden, Switzerland, the United Kingdom, Canada, the United States and Japan, which together accounted in 1955 for slightly under 90 per cent. of exports of manufactured goods from countries other than the eastern European countries, the U.S.S.R. and China. ² January to September. ³ Excluding special-category exports.

⁴ Whole of Germany for 1937. Since the present area of the German Federal Republic is estimated to have accounted for approximately two-thirds of pre-war Germany's total exports, the post-war figures above may be roughly compared with a pre-war share of rather more than 15 per cent.

⁵ Belgium-Luxemburg, France, Italy, the Netherlands, Sweden and Switzerland.

Source: Board of Trade Journal, 30th March 1957.

The increase since 1937 in the share of the United States and Canada in exports of manufactured products is partly explained by the relatively rapid rate of economic growth in the western hemisphere over this period. Another noteworthy development shown in the table above, however, is the fact that the present geographical area of Germany appears to have regained its pre-war share of manufactured exports by 1954 or 1955, and has since succeeded in increasing this share. Moreover, the share of the continental countries taken as a group (including Germany) seems to have been noticeably larger in 1956 than before the war, while, in relative terms, ground has been lost by the United Kingdom and Japan. The share of Japan, however, has been gradually increasing again over recent years, while that of the United Kingdom has been slowly shrinking.

Perhaps the principal observation to be made with respect to the figures in the foregoing table is that, at least in so far as the countries of western Europe and North America are concerned, the phase of post-war recovery has been over for some time, and the size of their share of trade in manufactured goods now depends upon the normal competitive forces of price, quality, novelty and availability. In this connection, the relative internal financial stability of individual countries and the pace of their economic progress are factors of fundamental importance. Thus the explanation of recent trends shown by the figures above is to be found largely in such differences in economic policies and structure as have been described, for some western European countries, in Chapter II.

Still another longer-term trend of some significance in world trade — which may also help to explain the relatively rapid growth of intra-European trade — has been the tendency for trade between manufacturing countries to increase at a faster pace than trade between manufacturing countries and those producing foodstuffs and raw materials, though the raw-material-producing countries have fared better in this respect than those producing foodstuffs. According to calculations made by the G.A.T.T., trade between industrial and non-industrial parts of the world accounted in 1937 for 55 per cent. of world trade, in 1950 for 53 per cent. and in 1955 for 51 per cent. This decline must be attributed entirely to the development of exports from non-industrial to industrial countries, the share of which in total world exports fell from 30.5 per cent. in 1937 to 28.9 per cent. in 1950 and 25.7 per cent. in 1955, whereas the share in world trade of exports from industrialised to non-industrialised countries remained more or less stable.

Among the various deep-seated reasons for this decline, mention should be made of the increase in agricultural production in industrial countries and of the tendency for the industrial areas to produce themselves more of the raw materials they need and to make greater use of substitutes such as man-made fibres, synthetic rubber, plastics, etc. The consumption of such man-made raw materials in industrial areas had risen, in terms of constant values, to about eight times its pre-war level by 1955, in

which year it accounted for 15 per cent. of total raw-material consumption, against 3 per cent. in 1938. In addition, there was a constant decline in average raw-material and fuel requirements per unit of manufacturing production. In industrial countries, the ratio between the consumption of raw materials and fuels and the gross value of manufacturing production fell from 25 per cent. in 1938 to 17.5 per cent. in 1955. Furthermore, countries in process of industrialisation are themselves using an increasing part of their output of primary products, in particular textile fibres. The total volume of exports of raw materials and fuels from non-industrial areas to industrial countries in 1955 exceeded the 1938 volume by only 10 per cent. — in spite of a considerable increase in oil shipments — compared with an expansion of 65 per cent. in world trade as a whole. During the same period exports of manufactured goods alone increased in volume by 110 per cent.

Finally, another trend — which, however, has only begun to emerge clearly since 1953 — is the growth in the trade of western Europe with eastern Europe and the U.S.S.R. The volume of this trade is still small,

amounting as it does to 3.5 per cent. of the aggregate trade of the western European countries, but it has been growing at a rather rapid rate. From 1953 to 1956 the exports of western Europe to eastern Europe and the U.S.S.R. rose by 62 per cent. and its imports from this region by 68 per cent., whereas the total exports of the western European countries increased by 34 per cent. and their imports by 37 per cent. The greater part of the growth in western

Western Europe:
Trade with eastern Europe and the U.S.S.R.

Year	Imports from	Exports to	Balance with
	eastern Europe and the U.S.S.R.		
In millions of U.S. dollars			
1950	801	643	- 158
1951	1,014	747	- 267
1952	995	739	- 256
1953	910	789	- 121
1954	1,042	979	- 63
1955	1,357	1,095	- 262
1956*	1,530	1,276	- 254

* First three quarters, at annual rate.

Europe's trade with the eastern countries was accounted for by Austria and the German Federal Republic. The expansion in east-west trade continued in 1956 at an accelerated pace. In the first nine months of the year exports to and imports from the eastern countries were both 23 per cent. greater than in the corresponding period of 1955.

The growth in the volume of world trade since before the war has been accompanied by a substantial increase in the volume of goods loaded in ocean shipping. But while oil shipments were nearly 3½ times as great in 1955 as they had been in 1937, having amounted to 360 million and 105 million tons respectively, dry-cargo shipments rose in the same period by only 15 per cent. The actual shipping space available increased from 68.5 million gross register tons before the war to 105.2 million in mid-1956, including the U.S. "moth-ball" fleet of 14 million tons. From 1955 to 1956

world tonnage went up by 4.6 million gross register tons, the largest yearly addition in peacetime since the record year 1920-21. In 1956 the tanker tonnage amounted to 28.2 million gross register tons, or 27 per cent. of total tonnage, against 17 per cent. before the war. In mid-1956 tankers accounted for 58 per cent. of tonnage under construction or ordered; this share will be still larger in future in view of the big increase in tanker orders during the latter half of 1956 under the impact of the Suez crisis.

In 1955 the volume of goods (measured by weight) passing through the Suez Canal represented 13 per cent. of world shipments. For oil alone the proportion was as high as 19 per cent.

International sea-borne shipping passing through the Suez Canal in 1955.

Type of cargo	World	Via Suez			Goods passing via Suez as percentage of world shipments
		Northbound	Southbound	Total	
goods loaded, in millions of metric tons					
Dry cargo	430	20.5	18.2	38.7	9.0
Tankers	360 ¹	66.9	1.9	68.8	19.1
Total . . .	790	87.4	20.1	107.5	13.6 ²

¹ Including about 39 million metric tons loaded at Mediterranean ports from pipe-lines originating in Iraq and Saudi Arabia.
² If Great Lakes shipping, amounting to 28 million tons, is added to ocean shipping the percentage is 13.2.
 Source: United Nations Monthly Bulletin of Statistics, December 1956.

The value of the goods shipped via the Suez Canal in 1955 has been estimated (on the basis f.o.b. exporting country) at approximately \$11 milliard, or 13 per cent. of the total of world exports, which amounted to \$84.1 milliard. Though 76.5 per cent. of the volume of northbound trade passing through the Canal in 1955 consisted of shipments of petroleum and petroleum products, in terms of value these products represented slightly less than 20 per cent. of the total. Textile fibres accounted for another 20 per cent., crude rubber for 10 per cent. and tea for 5 per cent. The southbound trade is composed mainly of a variety of finished or semi-finished goods of a high value per ton, which are exported from industrialised European countries to Asia, Australia and New Zealand, but a small proportion is also accounted for by shipments of cement and fertilisers, which, owing to their bulk and their very low value, are at the opposite end of the scale. Traffic via the Suez Canal increased from 36.5 million tons net in 1937 — the highest figure reached in the 1930s — to 81.8 million tons in 1950 and well over 100 million tons in 1955.

Reference has already been made in Chapter IV to the impact of the Suez crisis on the volume and sources of western Europe's oil supplies. Owing to the increased flow of oil from the western hemisphere and — not least — to a very mild winter in Europe, deliveries to the Continent during the period November 1956 to February 1957 actually covered the bulk of industry's fuel-oil requirements. Moreover, a better use of available

supplies was achieved through the early introduction of a scheme for the allocation of oil among the O.E.E.C. countries; this scheme was terminated at the beginning of May 1957, when oil supplies had become more adequate. With the exception of, for instance, the motor-car and building-materials industries in some countries, production has not been directly hit by the reduction in oil supplies, since it has been possible either to draw on stocks — which have thus been considerably depleted — or to switch from oil to coal or gas. Thus, perhaps the main effect of the closing of the Suez Canal was to push up freight rates, since it occurred at a time when international markets were already under strain. The Canal was reopened to traffic in the course of April 1957.

Poor crops, together with American policies for the disposal of agricultural surpluses, led Europe and several countries in Asia to import larger quantities of foodstuffs. The four main European countries' total imports of foodstuffs amounted to \$8.1 milliard in 1956, compared with \$7.3 milliard in 1955 (the rise being largely due to an increase in the quantities imported by France and Germany); the import surplus of the four countries in respect of foodstuffs went up from \$5.7 to 6.4 milliard (exports in this category having remained practically unchanged at \$1.6 milliard). India, Indonesia and Pakistan increased their imports of staple foodstuffs, which were supplied mainly out of U.S. surplus stocks and financed under grants or loans.*

The four major European countries' imports of coal, coke, petroleum and petroleum products increased from \$3.1 milliard in 1955 to \$3.5 milliard in 1956. As exports in the same category (mainly of petroleum products) remained unchanged at \$1.4 milliard, the import surplus in respect of such products increased from \$1.7 to 2.1 milliard. The imports of the United Kingdom, however, did not rise, and its import surplus, at \$0.7 milliard, was at the same level as in 1955. In the case of Germany, on the other hand, the balance of trade in these goods swung round from an export surplus in 1955 to an import surplus in 1956.

These increases in imports of food and fuel, in the case of Europe, and of foodstuffs, in the case of Asia, were reflected in converse movements in the trade balance of the United States. The U.S. import surplus for raw and manufactured foodstuffs was reduced from \$1.3 to 0.8 milliard, since a further increase in the main import items (coffee, cocoa and sugar) was more than offset by the expansion in exports of rice, bread and coarse grains — from \$0.9 to 1.3 milliard. Exports of coal, petroleum and petroleum products increased from \$0.9 to 1.3 milliard, so that, notwithstanding an increase in

* During the fiscal year 1955-56 some thirty-eight agreements were concluded by the United States with twenty-five countries. These agreements covered goods to the aggregate value of about \$680 million, at export prices. Further agreements were concluded in the fiscal year 1956-57, the most important being those with India and Brazil. The agreement with India, concluded in August 1956, provided for the sale, over a period of three years, against payment in rupees, of about \$360 million's worth of agricultural surpluses and the agreement with Brazil, concluded in December 1956, involved goods to the value of about \$140 million, to be delivered, also over a period of three years, against payment in cruzeiros.

imports of crude petroleum, the import surplus of 1955 (\$0.1 milliard) was replaced in 1956 by a small export surplus.

As a result of the growth of exports of food and fuel, and of a marked increase in those of machinery, vehicles, iron and steel, and textile products, U.S. commercial exports increased from \$14.3 milliard in 1955 to \$17.3 milliard in 1956. Accordingly, the U.S. balance-of-payments surplus on current account, after increasing only slightly from 1954 to 1955 — from \$1,230 million to \$1,390 million — rose sharply in 1956, when it reached the figure of \$2,920 million. The surplus on merchandise account (excluding transfers of military supplies and equipment) rose by \$1,760 million to a total of \$4,510 million, and this rise was offset only to a minor extent by an increase of \$230 million in the deficit on invisible account, which amounted to \$1,590 million in 1956. A notable feature of this development, however, was that the increase in the U.S. current-account surplus was accompanied by an even greater outflow of private capital (including both direct and portfolio investment), with the result that in their transactions with the United States foreign countries were able to increase their gold and dollar claims (including some long-term claims) by \$1,500 million in 1956, compared with \$1,470 million in 1955 (see table on page 156).

United States: Current account of the balance of payments.

Items	Western Europe and dependencies		Other areas		All areas	
	1955	1956	1955	1956	1955	1956
In millions of dollars						
Net military transfers under grants balanced by corresponding exports of goods and services (excluded from the following data) . .	1,590	1,890	540	720	2,130	2,610
Commercial exports	4,810	5,970	9,450	11,300	14,260	17,270
Commercial imports	3,340	3,920	8,170	8,840	11,510	12,760
Balance of trade	+ 1,470	+ 2,050	+ 1,280	+ 2,460	+ 2,750	+ 4,510
Invisible Items (net)						
Transport	+ 10	+ 60	+ 120	+ 100	+ 130	+ 160
Travel	— 420	— 480	— 90	— 90	— 510	— 570
Investment income	+ 330	+ 210	+ 1,670	+ 1,810	+ 2,000	+ 2,020
Military expenditure	— 1,750	— 1,720	— 850	— 1,030	— 2,600	— 2,750
Private remittances, pensions, etc.	— 290	— 320	— 310	— 320	— 600	— 640
Other Items	+ 50	+ 40	+ 170	+ 150	+ 220	+ 190
Total invisible items (net)	— 2,070	— 2,210	+ 710	+ 620	— 1,360	— 1,590
Balance on current account	— 600	— 160	+ 1,990	+ 3,080	+ 1,390	+ 2,920

The growth in commercial exports was an expansionary influence of noteworthy importance in the U.S. economy in 1956. Nearly three-quarters of all shipments abroad consisted of manufactured industrial goods, mostly finished goods. U.S. imports in 1956 were over \$1 milliard greater than in 1955. One-half of the total was accounted for by manufactured and semi-manufactured products. The high level of U.S. industrial activity was

reflected in an increase in purchases of such items as steel, machinery, non-ferrous metals and ferro-alloys, iron ore and steel-mill products. There were also notable increases in imports of motor-cars, paper, cotton and woollen textiles and, prior to the blocking of the Suez Canal, crude petroleum.

The afore-mentioned increase in the deficit on invisible account was the result mainly of a further growth in military expenditure abroad, which covers both outlay arising in connection with the maintenance of U.S. forces abroad and off-shore purchases of military supplies and equipment (whether for U.S. use or for transfer to other countries under military-aid programmes). Total outlay under this head increased from \$2.6 to 2.75 milliard.

Within western Europe the current-account balances of payments of the three main trading countries showed dissimilar trends. In the case of the United Kingdom and France, they were mainly due to a short-run influence, namely changes in the state of domestic demand. From a longer-term point of view, however, the volume and pattern of the foreign trade of all three countries — though developments in Germany stand in marked contrast to those in the United Kingdom and France — reveal the influence of more deep-seated factors, which are perhaps worth mentioning. In the case of the United Kingdom, the development of exports has been adversely affected by various factors, such as the stagnation of the international trade in textiles owing to the development of textile industries overseas, the weakening of imperial preference, and the fact that a large proportion of British exports go to countries which are primary producers and whose export trade is less highly developed than that of industrialised countries. The growth of France's exports is also being impeded by factors of a structural nature; this is reflected in the fact that a large proportion of total exports is accounted for by raw materials and semi-manufactured products and that agricultural production has been only slowly adapted to the changing pattern of demand. In addition, markets in the French franc area have been gradually opened to outside competition. Germany's position, on the other hand, is that of a country undergoing marked expansion in developing branches of industry and situated in the centre of the area in which the development of trade in recent years has been greatest. It should be added that since the coming into being of the present pattern of foreign exchange rates in 1949 costs and prices have risen less in Germany than in the other two countries, and this has undoubtedly contributed to the large expansion of German exports. A similar competitive advantage would seem also to account for the growth and diversification of the exports of certain other countries — such as Japan, Italy and the Netherlands.

The current-account balance of payments of the United Kingdom shifted from a deficit of £79 million (including U.S. defence aid) in 1955 to a surplus of £233 million last year. The major changes were in the balance of trade, the large deficit of 1955 having been reduced in 1956 by exactly £300 million to a total of £59 million. Although the terms of trade altered

in the United Kingdom's favour, export prices having risen by 4 per cent. while import prices went up by only 2 per cent., this was only partly responsible for the improvement. There was also a slight change for the better in the customary surplus on invisible account, which increased in 1956 by £33 million to a total of £269 million in spite of the adverse effect of the Suez crisis on both net shipping receipts and oil revenue.

United Kingdom: Current account of the balance of payments.

Items	1954	1955	1956	1955		1956	
				1st half	2nd half	1st half	2nd half
In millions of £ sterling							
Merchandise trade (f.o.b.)							
Imports	3,006	3,429	3,462	1,695	1,734	1,734	1,729
Exports (including re-exports)	2,820	3,070	3,403	1,530	1,540	1,701	1,702
Balance of trade	- 186	- 359	- 59	- 165	- 194	- 33	- 26
Invisible items (net)							
Shipping	+ 149	+ 125	+ 109	+ 73	+ 52	+ 64	+ 44
Investment income	+ 76	+ 63	+ 83	+ 46	+ 17	+ 39	+ 44
Government transactions	- 174	- 181	- 193	- 85	- 96	- 92	- 101
Other items	+ 313	+ 229	+ 271	+ 121	+ 108	+ 167	+ 104
Total invisible items (net)	+ 364	+ 236	+ 269	+ 155	+ 81	+ 178	+ 91
Balance on current account							
Excluding defence aid	+ 178	- 123	+ 210	- 10	- 113	+ 145	+ 65
Defence aid (net)	+ 50	+ 44	+ 23	+ 33	+ 11	+ 9	+ 14
Total, including defence aid	+ 228	- 79	+ 233	+ 23	- 102	+ 154	+ 79

Reflecting strong internal disinflationary measures and an accompanying levelling-off of domestic demand, exports increased appreciably in 1956 compared with 1955, rising by £267 million to a total of £3,172 million, according to the trade accounts. If adjustments are made to exclude from the 1955 figure carry-over exports due to the dock strike of October 1954 and from the 1956 figure repayments of silver bullion to the value of £22 million borrowed from the United States under a wartime lend-lease arrangement, the rate of expansion of exports works out at close on 10 per cent. in terms of value and 6 per cent. in terms of volume.

As in the two previous years, most of the rise in the United Kingdom's exports in 1956 was attributable to larger sales of engineering products, the value of which increased by 14 per cent. They consisted mainly of ships, aircraft and rolling stock, which accounted for half of the rise in total exports. In 1955 the greater part of the expansion in exports in this sector had been due to larger sales of machinery. Engineering products accounted for 40 per cent. of total exports in 1956, against 24 per cent. in 1955.

So-called "new" or "virtually new" products (according to criteria employed by the Board of Trade) are gaining in importance. Among such

new items, which include diesel locomotives, antibiotics, detergents, etc., exports of radio-communication and navigational-aid equipment, including radar, seem to be making particularly promising progress, having amounted to £15.3 million in 1956 compared with £2.2 million in 1948. Moreover, from 1954 to 1955 the increase in "new" exports from the United Kingdom was 21 per cent., compared with 16 per cent. for Germany and 13 per cent.

United Kingdom: Distribution of exports.

Areas	1953	1954	1955	1956	1953	1954	1955	1956
	in millions of £ sterling				as percentages of total			
Non-sterling area								
Dollar area	386	360	397	521*	15	13	14	16
O.E.E.C. countries and dependencies	692	722	760	847	27	27	26	27
Other non-sterling countries	251	261	318	356	9	10	11	11
Total non-sterling area	1,329	1,344	1,474	1,724	51	50	51	54
Sterling area								
British colonies	360	340	382	422	14	13	13	13
Australia and New Zealand	313	404	424	367	12	15	15	12
India, Pakistan and Ceylon	172	180	188	226	7	7	6	7
Other sterling countries	409	407	437	432	16	15	15	14
Total sterling area . .	1,254	1,331	1,431	1,448	49	50	49	46
Total for all countries . .	2,582	2,674	2,905	3,172	100	100	100	100

* Including consignments of silver bullion exported to the United States in repayment of lend-lease borrowing; these amounted to £22 million in 1956.

for the United States. While these differences are small in terms of the actual volume of exports involved and represent only one aspect of a strong competitive position, they do give some indication of the progressiveness of British industry in adapting itself to changing external conditions.

The value of imports, according to the trade accounts, was almost exactly the same in 1955 and 1956. The main cause of the levelling-out after the steep rise of 15 per cent. in 1955 was the halting of the growth of output in manufacturing industry. Imports of manufactured goods hardly rose above the 1955 level, owing to the fact that the goods classed as manufactures in the trade accounts include many semi-manufactures intended for industrial purposes, such as non-ferrous metals, iron and steel, which in 1955 largely accounted for the steep rise of 32 per cent. in imports in this category and which were imported in smaller quantities in 1956 (with the exception, however, of iron and steel). Imports of basic materials in 1956 totalled £1,100 million, some £20 million less than in 1955, the net reduction having been mainly in respect of timber and rubber, while imports of metal ores and scrap increased. The decline in the value of rubber imports was almost entirely due to a fall in prices, and the increase in imports of metal ores and scrap was in line with the rise in steel production.

The most striking development in the United Kingdom's foreign trade in 1956, according to balance-of-payments figures, was an increase of 18 per cent. in exports to the non-sterling world, two-fifths of the rise having been in relation to the dollar area. This relative shift towards the dollar area helped to bring about a great improvement in the balance of current transactions with that area. In 1956 the deficit was only £22 million (\$62 million), compared with £205 million (\$574 million) in 1955. Exports to the United States alone rose from £198 to 236 million (excluding the repayment of silver bullion already mentioned), or by 19 per cent., while exports to Canada increased by 26 per cent. During the last few months of 1956 the United States overtook Australia as the largest single market for British exports. Metals and machinery did well in both these markets. Exports to the rest of the dollar area were over one-third larger than in 1955 and included ships and aircraft sold to Liberia and Venezuela.

Exports to non-sterling O.E.E.C. countries and their dependencies increased by 11 per cent., a higher rate than that attained in the two preceding years, and exports to the rest of the non-sterling world rose by 12 per cent. If re-exports, which are not taken into account in the preceding table, are included, the rise in relation to the non-sterling world amounts to 17 per cent., one-third of it being due to larger re-exports of rubber to the U.S.S.R. Exports to the sterling area, on the other hand, hardly increased at all, owing largely to the Australian import restrictions on capital goods and motor-cars, which were tightened in June 1956. The number of cars and commercial vehicles exported to Australia fell from 134,500 in 1955 to 73,100 in 1956.

In spite of continuing internal inflationary pressure, the other two sterling countries in Europe, Ireland and Iceland, were able to reduce somewhat their external deficit on current account in 1956, Ireland mainly through a reduction in imports and Iceland through an improvement in the balance of invisible items.

In March and July 1956 Ireland imposed import levies on a whole range of manufactured consumer goods and on the materials used for their production. These levies, together with a fall in imports of foodstuffs, reduced

Ireland and Iceland: Foreign trade.

Year	Ireland			Iceland		
	Imports	Exports and re-exports	Balance	Imports	Exports	Balance
	in millions of Irish pounds			in millions of krónur		
1953	182	114	— 68	1,111	708	— 405
1954	180	115	— 65	1,130	846	— 284
1955	204	110	— 94	1,264	848	— 416
1956	181	107	— 74	1,468	1,031	— 437

Mention has already been made of the increase in net imports of fuel and foodstuffs — the latter being officially encouraged, with a view to keeping down the cost of living, by the lowering or temporary suspension of customs duties on certain items, in particular cattle and meat, French production of which was inadequate in 1956.

Imports of manufactured and semi-manufactured goods also increased, by as much as 60 per cent. in the case of iron and steel products and by 27 per cent. in that of machinery and apparatus. Moreover, while the index of production of capital goods rose by 11.1 per cent. in 1956, exports of such goods increased by only 1.3 per cent. In the consumer-goods sector production rose by 6 per cent., while exports fell by 0.5 per cent. With the exception of investment goods, all categories of exports fell in 1956 to below their 1955 levels.

France: Distribution of foreign trade by currency areas.

Areas	Imports			Exports			Balance		
	1954	1955	1956	1954	1955	1956	1954	1955	1956
In milliards of French francs									
Franc area . . .	412	416	462	547	559	522	+ 136	+ 144	+ 60
Rest of the world									
Continental									
O.E.E.C. countries*	373	473	583	518	622	616	+ 145	+ 149	+ 33
Sterling area . . .	393	421	449	153	207	179	- 240	- 214	- 270
Dollar area . . .	166	197	280	95	113	121	- 71	- 84	- 159
Others	178	168	202	196	235	185	+ 18	+ 67	- 17
Total for the rest of the world	1,110	1,259	1,514	962	1,177	1,101	- 148	- 82	- 413
Grand total . .	1,522	1,674	1,976	1,509	1,736	1,623	- 13	+ 62	- 353

* Including their overseas territories.

The deterioration on trade account occurred in relation to all the major currency areas, the worsening having been least pronounced, however, vis-à-vis the sterling area. Normally, metropolitan France has a trade surplus in relation to the overseas franc area* and the E.P.U. area and a trade deficit with the dollar area and all other countries as a group. In 1956, the trade surplus vis-à-vis the franc area was more than halved, while the trade deficit with the rest of the world, which had amounted in 1955 to Fr.fcs 82 milliard, rose sharply to Fr.fcs 413 milliard.

* For the establishment of the balance of payments the franc area was regarded as comprising in 1956, in addition to metropolitan France, the French overseas departments (i.e. Algeria, Guadeloupe, Martinique, Guiana, Réunion), French West Africa, French Equatorial Africa, the French Cameroons, Togo, Madagascar and its dependencies, the Comoro Archipelago, Saint Pierre and Miquelon, the French territories in Oceania, New Caledonia and its dependencies, the New Hebrides, Cambodia, Laos and Viet-Nam, and Morocco and Tunisia.

Balance-of-payments figures are available only for the first half of 1956. As compared with the corresponding period of 1955, there was a deterioration of \$420 million in the current-account position of metropolitan France, of which \$310 million was accounted for by trade and \$110 million by invisible items.

French franc area: Balance of payments.

Items	1953	1954	1955	1955	1956
	First half				
in millions of U.S. dollars					
Metropolitan France					
Merchandise trade (f.o.b.)					
Imports	2,494	2,724	3,064	1,503	1,936
Exports	2,155	2,545	3,150	1,538	1,660
Balance of trade	- 339	- 179	+ 86	+ 35	- 276
Invisible items (net)					
Transport	- 101	- 75	- 118	- 63	- 101
Investment income	+ 59	+ 51	+ 71	+ 40	+ 48
Tourist trade	- 6	+ 61	+ 34	+ 30	-
Government receipts	+ 337	+ 435	+ 513	+ 222	+ 207
Other invisible items	- 67	- 31	+ 16	+ 11	- 23
Total invisible items (net)	+ 222	+ 441	+ 516	+ 240	+ 131
Balance on current account	- 117	+ 262	+ 602	+ 275	- 145
Overseas territories					
Balance on current account with foreign countries	- 103	- 68	- 196	- 56	- 113
Whole of French franc area					
Balance on current account					
Excluding official donations	- 220	+ 194	+ 406	+ 219	- 258
Official donations	+ 341	+ 438	+ 383	+ 202	+ 111
Including official donations	+ 121	+ 632	+ 789	+ 421	- 147
Capital movements (outflow +)	- 33	+ 165	+ 132	-	+ 63
Changes in gold and foreign exchange reserves (increase +)	+ 161	+ 506	+ 673	+ 424	- 234
Errors and omissions	- 7	- 39	- 16	- 3	+ 24

In addition, the deficit of the overseas territories in relation to foreign countries doubled and the franc area's receipts from official donations fell by nearly a half. The net result was a deterioration of \$568 million in the first half of 1956 compared with the same period of 1955.

In sharp contrast to the development in France, there was a remarkable increase in the German Federal Republic's surplus on current account (including net reparation payments), which rose to DM 4.4 milliard in 1956, compared with DM 2.1 milliard in 1955 and DM 3.6 milliard in 1954. Although merchandise imports increased more than domestic production, the growth of exports was even greater, and the trade surplus jumped from

DM 3.3 milliard in 1955 to DM 6.0 milliard in 1956. The net deficit on invisible account rose only slightly — from DM 360 to 510 million — although there were marked changes in the individual items. There was a considerably larger deficit on transportation account compared with the previous year, but at the same time much greater net receipts from services rendered to foreign troops.

Germany: Balance of payments.

Items	1953	1954	1955	1956
	in millions of Deutsche Mark			
Merchandise trade (f.o.b.)				
Exports*	18,500	21,970	25,641	30,774
Imports	14,848	18,046	22,339	24,766
Balance of trade	+ 3,652	+ 3,924	+ 3,302	+ 6,008
Invisible Items (net)				
Transport	— 185	+ 7	— 314	— 900
Investment income	— 43	— 501	— 602	— 442
Tourist trade	+ 13	+ 180	+ 282	+ 477
Receipts from services rendered to foreign troops, including exchange of dollars into Deutsche Mark	+ 1,140	+ 1,018	+ 1,216	+ 1,757
Other invisible items	— 431	— 655	— 939	— 1,402
Total Invisible Items (net)	+ 494	+ 49	— 357	— 510
Balance on current account				
Excluding reparations	+ 4,146	+ 3,973	+ 2,945	+ 5,498
Reparations (net)	— 53	— 368	— 815	— 1,104
Total, including reparations	+ 4,093	+ 3,585	+ 2,130	+ 4,394
Capital movements (outflow +)	+ 282	+ 451	+ 498	+ 443
Changes in gold and foreign exchange reserves (increase +)	+ 3,594	+ 2,723	+ 1,921	+ 4,673
Miscellaneous capital, errors and omissions	+ 217	+ 411	— 289	— 722

* Including net receipts from transit trade.

The increase in 1956 in Germany's trade surplus with the continental O.E.E.C. countries, with which it normally has a large export surplus, was somewhat greater, according to the trade statistics, than the rise vis-à-vis all areas. While the growth in the surplus was particularly marked in relation to France, it was also substantial vis-à-vis Belgium, Switzerland, the Netherlands and Norway.

Though there was no change in 1956 in Germany's usual trade deficit with the United Kingdom, there was an appreciable increase in its surplus vis-à-vis the overseas sterling area, largely owing to a marked rise in exports to India. Moreover, whereas the trade deficit with the dollar area became still larger in 1956, the rise was partly compensated by the increase in Germany's invisible earnings from U.S. expenditure in connection with the maintenance of troops. Finally, although the balance of Germany's merchandise trade in relation to "agreement countries outside the E.P.U. area" naturally underwent little change, the actual volume of trade with these countries

Germany: Balance of trade by countries and areas.

Countries and areas	1953	1954	1955	1956	Change from 1955 to 1956
	in millions of Deutsche Mark				
Continental O.E.E.C. countries					
Austria	280	470	660	640	— 20
Belgium-Luxemburg	330	640	290	710	+ 420
Denmark	320	420	160	180	+ 20
France	10	— 160	— 510	300	+ 810
Italy	500	500	390	430	+ 40
Netherlands	390	510	570	710	+ 140
Norway	330	320	250	390	+ 140
Sweden	360	570	680	680	—
Switzerland	500	560	680	910	+ 230
Other continental O.E.E.C. countries	140	230	430	400	— 30
Total	3,140	4,060	3,600	5,350	+ 1,750
Sterling area					
United Kingdom	— 100	— 400	— 360	— 380	—
Other sterling-area countries	— 230	20	10	270	+ 260
Total	— 330	— 380	— 370	— 110	+ 260
Dollar area					
Other countries	— 620	— 960	— 2,140	— 2,710	— 570
Total for all countries	2,520	2,700	1,240	2,900	+ 1,660

Note: In the trade balances shown in the above table the import figures are calculated on a c.i.f. basis (i.e. including freight and insurance costs), while in the balance of payments given in the preceding table they are calculated on an f.o.b. basis (i.e. excluding freight and insurance costs).

increased substantially in 1956. In relation to eastern Europe, for instance, imports rose by DM 360 million to DM 900 million and exports by about the same amount.

Germany's exports of capital goods to the primary-producing areas increased (according to United Nations data based on the first nine months of the year) by almost 20 per cent. in 1956, compared with an increase of about 29 per cent. in the case of the United States and one of over 16 per cent. in that of the United Kingdom. In percentage terms, the largest increases in the case of Germany occurred in relation to the Far East, the Middle East and the overseas sterling area, in that order. Germany had only a very small share in the marked expansion in Latin America's imports of capital goods, this having been accounted for mainly by purchases from the United States and the United Kingdom.

In order to check the growth in its external payments surplus and also to help to stabilise domestic prices, Germany introduced in 1956 three sets of measures directly affecting trade: dollar-trade liberalisation was increased, import duties were lowered and export credits were reduced.

In June 1956 the degree of dollar-trade liberalisation, which had been 68 per cent. since May 1955, was raised to 93 per cent., i.e. to approximately the same level as for intra-European trade, by the freeing of some 600 items, including 140 agricultural products. Since coffee and coal, which had entered

the country without restriction for some time, were on the list, the actual change was in fact less great than the official figures suggest. Moreover, the liberalisation percentage covers only private trade, and at the beginning of 1957 one-quarter of all imports from the dollar area were still subject to state trading.

As from 1st July 1956, the import duties on most manufactured products were reduced on a provisional basis until the end of 1957, so that the maximum duty chargeable is 21 per cent. ad valorem. The duty on fuel oil and machine tools has been suspended altogether in order to hold down prices in the investment sector. In addition, tariff cuts negotiated in the G.A.T.T. were brought into force on 1st July instead of on 1st October 1956. On 10th December further tariff cuts, applicable mainly to building materials and certain agricultural products, became effective. German agriculture, however, still enjoys a high degree of protection, and the heavy fiscal duties on beverages have also been maintained.

In August 1956 "Hermes", the agency which guarantees export credits, reduced its maximum coverage from 90 per cent. to 80 per cent. for transfer risks. The Export Credit Bank followed this lead by reducing the amount of credit it would give on one export order from 80 to 60 per cent. of the total, and in February 1957 the Bank deutscher Länder decided to reduce, before the end of April, the rediscount facilities afforded to the Frankfurt Export Credit Bank from DM 600 to 500 million.

In the Netherlands, the excessive expansion of monetary demand led to a large swing in the balance of payments from a surplus of over Fl. 300 million in 1955 to a deficit of nearly Fl. 600 million in 1956. The deterioration was mainly attributable to an increase in the deficit in respect of merchandise trade, which rose by Fl. 700 million to almost Fl. 2,500 million, but the surplus on invisible account was also noticeably reduced, declining by over Fl. 200 million to just under Fl. 1,900 million.

The worsening of the trade balance in 1956 resulted mainly from the fact that the volume of imports increased by 12 per cent., while exports rose by only 5 per cent. A large expansion in imports of consumer goods, prominent among which were textiles, played an important part, such imports having increased in volume by 25 per cent. from 1955 to 1956. The strong demand for investment goods was also reflected in the trend of imports of machinery, apparatus and electrical goods. Finally, there were also very substantial increases in imports of ores, solid and liquid fuels, and cereals, perhaps to some extent associated with a building-up of stocks. Among exports, those of petroleum products — which have an import content representing some 85 per cent. of their value — have held first place since 1954. In 1956, they rose for the first time above the Fl. 1 milliard mark, accounting for 10 per cent. of total exports in that year.

While the deterioration in the balance of trade in 1956 was fairly general, in that it applied to nearly all regions, it was most pronounced in

Netherlands: Balance of payments.

Items	Total balance			Balance in gold and convertible currencies		
	1954	1955	1956	1954	1955	1956
In millions of florins						
Merchandise trade (f.o.b.)						
Imports	9,714	11,298	13,000	1,582	2,027	2,297
Exports	8,613	9,527	10,530	960	929	998
Balance of trade	-1,101	-1,771	-2,470	- 622	-1,098	-1,289
Invisible items (net)						
Investment income	+ 298	+ 318	+ 248	- 4	+ 4	- 17
Emigrants' remittances and private donations	+ 34	+ 37	+ 22	+ 11	+ 12	+ 10
Other services	+1,298	+1,755	+1,618	+ 160	+ 495	+ 447
Total invisible items (net)	+1,626	+2,110	+1,884	+ 167	+ 511	+ 440
Balance on current account						
Excluding official donations . . .	+ 525	+ 339	- 586	- 455	- 587	- 849
Official donations	+ 51	- 5	+ 5	+ 51	- 5	+ 5
Including official donations . . .	+ 576	+ 334	- 581	- 404	- 592	- 844
Capital movements (outflow +) . .	+ 303	+ 322	+ 320	- 364	- 319	- 367
Changes in gold and foreign exchange reserves (increase +)	+ 273	+ 12*	- 801*	- 40	- 273	- 477

* Including consolidated claims originating in payments agreements.

relation to the O.E.E.C. group of countries. The trade deficit vis-à-vis the Belgium-Luxemburg Economic Union alone increased from Fl. 800 million in 1955 to Fl. 1,100 million in 1956, and there was also an appreciable increase in the deficit in relation to Germany. In its balance of trade with the United States, the Netherlands experienced a setback of some Fl. 250 million.

The Belgium-Luxemburg Economic Union achieved a balance-of-payments surplus of B.fcs 8.9 milliard in the first half of 1956 (figures for the full year were not available at the time of writing). This surplus appears, however, to have been reduced somewhat in the second half of the year, mainly because of a deterioration on trade account. In 1956 both imports and exports increased by roughly the same amount. As regards the regional distribution of trade, there was a substantial increase in the surplus of the B.L.E.U. with the E.P.U. countries, and a reduction in the deficit vis-à-vis the dollar area, despite the fact that the deficit with the United States alone increased.

In Austria, the total value of exports rose from \$710 million in 1955 to \$900 million in 1956, or by 27 per cent., while the value of imports increased by only 10 per cent. If one excludes from exports unrequited deliveries to the U.S.S.R., which rose from \$14 million in 1955 to \$51 million in 1956, the increase is reduced to 22 per cent. On invisible account, net receipts rose from \$59 million in 1955 to \$85 million in 1956, mainly owing to a

Balance of payments of selected countries.

Country and year	Merchandise trade			Net income from invisibles	Balance on current account	Changes in monetary reserves (increase +)
	Imports ¹	Exports	Balance			
Austria (millions of U.S. dollars)						
1953	548	538	- 10	+ 81	+ 111	+ 151
1954	653	609	- 44	+ 112	+ 68	+ 96
1955	887	710	- 177	+ 59	- 130	- 54
1956	974	901	- 73	+ 85	- 39	+ 52
Belgium-Luxemburg (milliards of francs)						
1953	98.6	100.5	+ 1.9	- 1.3	+ 0.7	+ 0
1954	106.9	104.3	- 2.6	- 0.2	- 2.7	- 3.6
1955	118.4	128.5	+ 8.1	+ 2.9	+ 11.0	+ 4.4
1956 1st half	65.7	72.7	+ 7.0	+ 1.9	+ 8.9	+ 2.7
Switzerland (millions of francs)						
1953	5,071	5,165	+ 94	+ 1,346	+ 1,440	+ 241 ²
1954	5,592	5,272	- 320	+ 1,383	+ 1,063	+ 365 ²
1955	6,401	5,622	- 779	+ 1,441	+ 662	+ 337 ²
1956	7,597	6,203	- 1,394	.	.	+ 420 ²

¹ In the case of Austria and Belgium imports are f.o.b., in that of Switzerland c.i.f.

² Reserves of the National Bank in gold and in foreign exchange eligible as cover for the note issue.

substantial rise — of \$30 million — in income from tourism. Largely as a result of the growth in exports and the increase in tourist trade, the deficit in the current-account balance of payments, excluding unrequited exports to the U.S.S.R., declined from \$130 million in 1955 to \$39 million in 1956.

Like that of the B.L.E.U., Austria's position in the E.P.U. improved in 1956, while its trade balance with the United States deteriorated somewhat. The main increases in exports were in those of manufactured and semi-manufactured goods — especially products with a high labour content, such as machinery, metal products, optical instruments and textiles — while the rise in imports was chiefly due to larger purchases of raw materials — fuels, ores and scrap — and of manufactured and semi-manufactured goods. Moreover, as in the case of Germany, the strength of aggregate demand in 1956 was to a significant extent attributable to the buoyancy of the demand for exports. Indeed, exports absorbed almost four-fifths of the increase in production in the economy as a whole, and in some industrial branches, such as the metal and machine industries, they absorbed the whole of it.

The import surplus of Switzerland increased sharply in 1956, rising by Sw.fcs 615 million to a total of Sw.fcs 1,394 million. The strong demand for imports in 1956 was closely connected with the further expansion of economic activity, the effect of which was reinforced in the last quarter of the year, under the influence of the Suez crisis, by heavy purchases of food and feeding stuffs for stocking purposes. Exports of manufactured products increased, compared with 1955, by Sw.fcs 525 million, of which nearly Sw.fcs 160 million was accounted for by watches alone, Sw.fcs 100 million by machinery and over Sw.fcs 80 million by chemicals and pharmaceutical products. Switzerland's import surplus was almost entirely in relation to

Europe and North America; vis-à-vis other overseas areas, in particular Asia, it had, as usual, an export surplus. It seems probable that net receipts from invisible items, which in recent years have amounted to some Sw.fcs 1.4 milliard annually, rose in 1956 to about Sw.fcs 1.5 milliard, in which case the current account of the balance of payments would show a very small surplus for the year.

Rapidly expanding production in Italy necessitated a considerable growth in imports of raw materials, semi-manufactured goods and fuels, which brought total imports to Lit. 1,981 milliard in 1956 against Lit. 1,695 milliard in 1955 — an increase in value terms of 17 per cent. Exports rose from Lit. 1,160 milliard in 1955 to Lit. 1,348 milliard in 1956, or by 16 per cent. The main factors in this expansion would seem to have been price competitiveness, the increasing diversification of Italian industry and the high income elasticity of exports of goods such as quality manufactures, fruit and vegetables. The varying degrees of expansion in the different categories of exports reflect the influence of these factors. In fact, the greatest advance (62 per cent.) was made by the products of the Italian iron and steel industry, which until recently was small and heavily protected; next came engineering goods (25 per cent.) and fruit, vegetables, etc. (18 per cent.). Engineering goods, sales of which, both to the United States and to western Europe, have greatly expanded, became in 1956 the leading group of exports, while agricultural produce took only second place.

A growth of \$87 million in the deficit in respect of merchandise trade in 1956 was more than compensated by an increase in net income from invisible items, which rose from \$573 million in 1955 to \$703 million in 1956. Freight

Italy: Balance of payments.

Items	1953	1954	1955	1956
	in millions of U.S. dollars			
Merchandise trade				
Imports (c.i.f.)	2,118	2,221	2,518	2,908
Exports (f.o.b.)	1,394	1,606	1,857	2,180
Balance of trade	- 724	- 615	- 661	- 748
Invisible items (net)				
Freights	+ 134	+ 135	+ 157	+ 190
Tourist trade	+ 131	+ 139	+ 190	+ 213
Workers' and emigrants' remittances . .	+ 119	+ 114	+ 125	+ 155
Other invisible items	+ 162	+ 111	+ 101	+ 145
Total invisible items (net)	+ 546	+ 499	+ 573	+ 703
Balance on current account				
Excluding official donations	- 178	- 116	- 88	- 45
Official donations	+ 133	+ 104	+ 41	+ 32
Including official donations	- 45	- 12	- 47	- 13
Capital movements (inflow -)	+ 12	- 67	- 155	- 123
Changes in gold and foreign exchange reserves (increase +)	- 57	+ 55	+ 108	+ 110

receipts went up to \$190 million, owing both to higher rates and to an expansion in the Italian merchant fleet. The mounting numbers of foreign visitors, estimated at nearly 13 million in 1956, brought the net receipts from tourism to \$213 million. Remittances from emigrants and Italians temporarily working abroad increased from \$125 million to \$155 million. Thus, in spite of a reduction in receipts from official donations, the deficit in the current-account balance of payments declined from \$47 million in 1955 to only \$13 million in 1956.

In 1956 the balances of payments of the northern countries had only one noteworthy feature in common — a rise in income from freights. Otherwise the situation in each of the four countries was conditioned mainly by diverse internal developments. While it changed for the worse in Denmark and Finland, there was a great improvement in Norway and, to a lesser extent, in Sweden.

Northern countries: Net freight earnings.

Countries	1951	1952	1953	1954	1955	1956
	in millions of U.S. dollars					
Denmark	33	39	38	29	36	51
Finland ¹	48	43	40	43	60	65 ²
Norway	301	294	239	235	297	406
Sweden	188	208	166	169	198	235
Total	570	584	483	476	591	757

¹ Transportation account.

² Preliminary.

In Denmark, the goods and services account was roughly in balance in the first half of 1956, but the position deteriorated in the second half of the year, partly owing to adverse influences from abroad. For 1956 as a whole there was a deficit of D.Kr. 134 million, compared with a surplus of D.Kr. 181 million in 1955. The shift of over D.Kr. 300 million is attributable to the exceptional growth of imports, which rose by some D.Kr. 800 million owing both to an increase in the quantities imported and to higher prices. Imports of raw materials, especially fuels, rose by some 10 per cent. in value over the previous year. Denmark is dependent on oil for nearly 40 per cent. of its total power and was therefore strongly affected by the increase in oil prices and freight rates.

Exports expanded by only some D.Kr. 400 million in 1956 compared with 1955, the whole of the increase having been due to a growth in exports of manufactured products, especially machinery, whereas exports of agricultural produce actually fell, mainly on account of smaller sales of dairy produce and bacon. In view of Denmark's long-standing difficulty in increasing exports of agricultural produce, owing to the fact that the agricultural sector is protected and subsidised in most countries, the shift towards larger exports of manufactured goods is of particular significance and reflects the efforts of that country to expand the industrial sector of its economy.

The trade deficit of D.Kr. 584 million in 1956 was largely compensated by net earnings from invisibles amounting to D.Kr. 450 million, of which net shipping receipts accounted for D.Kr. 350 million (against D.Kr. 250 million in the previous year). Denmark normally has a large deficit on current account with the continental O.E.E.C. countries. Whereas in 1955 this was almost covered by a surplus in relation to the sterling area, in 1956 that was no longer the case, and the deficit vis-à-vis the E.P.U. area as a whole rose to D.Kr. 280 million, against D.Kr. 48 million in the previous year. Since, in addition, the earlier surplus with the dollar area was replaced by a deficit, there was a surplus on current account only in relation to countries outside the E.P.U. and dollar areas.

Northern countries: Balance of payments.

Country and year	Merchandise trade			Net Income from invisibles	Balance on current account	Changes in monetary reserves (Increase +)
	Imports ¹	Exports	Balance			
Denmark (millions of kroner)						
1953	6,489	6,282	— 177	+ 275	+ 278	+ 5
1954	7,526	6,746	— 780	+ 257	— 518	— 499
1955	7,518	7,408	— 110	+ 291	+ 181	— 24
1956	8,360	7,776	— 584	+ 450	— 134	+ 67
Finland (billiards of markkas)						
1953	123.6	131.7	+ 8.1	+ 4.1	+ 12.2	+ 5.4
1954	150.5	156.7	+ 6.2	+ 6.7	+ 12.9	+ 13.7
1955	177.6	181.5	+ 3.9	+ 10.7	+ 14.6	+ 6.7
1956	203.6	178.0	— 25.6	+ 10.6 ²	— 15.0 ²	— 16.3
Norway (millions of kroner)						
1953	6,515	3,876	— 2,639	+ 1,664	— 896	— 66
1954	7,381	4,447	— 2,934	+ 1,759	— 1,175	— 215
1955	7,896	4,814	— 3,082	+ 2,110	— 972	+ 344
1956	8,730	5,747	— 2,983	+ 2,923	— 60	+ 455
Sweden (millions of kroner)						
1953	8,172	7,659	— 513	+ 845	+ 332	+ 340
1954	9,192	8,196	— 996	+ 830	— 166	— 111
1955	10,337	8,933	— 1,404	+ 990	— 414	+ 38
1956	11,428	10,048	— 1,380	+ 1,190	— 190	+ 214

¹ For Denmark Imports are f.o.b., for the other three countries c.i.f.

² Preliminary estimate.

The strong inflationary conditions prevailing in the economy of Finland in 1956 had a twofold influence on the country's balance of payments. Imports increased from FM 178 to 204 milliard, or by 15 per cent., while exports actually fell by 2 per cent., with the result that there was a deficit on merchandise account of FM 26 milliard — the first since 1952. Part of the increase was due to imports authorised in 1955, when, export receipts being high, licences had been granted very liberally. The largest rise in imports, both absolutely and relatively, was in respect of machinery and vehicles. In 1956 exports of wood and wood products fell both in quantity and in price, while the reverse was the case with paper-industry products, the net result being a decline of FM 7.5 milliard in overall earnings on forestry exports. Exports of engineering goods, which had greatly increased in recent

years, fell off slightly. The United Kingdom retained its leading position among Finland's partners, followed by the U.S.S.R., trade with which resulted in a large export surplus. Part of this surplus was settled by means of triangular agreements providing for deliveries from other eastern European countries, and part was paid for in western currencies by the U.S.S.R. Assuming that receipts in respect of invisible items were about the same as in 1955, the deficit on current account for 1956 can be estimated at some FM 15 milliard, against a surplus of the same magnitude in the previous year.

In contrast to Finland, Norway was able in 1956 to effect a very appreciable improvement in its balance of payments, mainly owing to a considerable increase in freight earnings. There was a rise of 11 per cent. in the value of imports, which, however, was offset by a 19 per cent. increase in the value of exports, so that the import surplus remained at almost the same level as in 1955 — roughly N.Kr. 3 milliard. Exports of ships, though greatly outweighed by imports of ships, more than doubled in 1956 compared with 1955 and represented 8 per cent. of total exports, against less than 5 per cent. in the previous year. Exports of raw and semi-manufactured metals expanded greatly and constituted in 1956 the largest single group, taking the place previously held by forestry products. The deficit on merchandise account was nearly covered by net receipts from shipping, which amounted to N.Kr. 2.9 milliard, i.e. N.Kr. 780 million more than in the previous year. Of the total increase in freight earnings, about N.Kr. 600 million, or over 75 per cent., is estimated to have been due to the rise in freight rates, the rest having been attributable to the taking into service of new merchant tonnage.

In Sweden, as in Norway, there was hardly any change in 1956 in the merchandise account of the balance of payments, exports and imports having risen by about the same amount. There was a much smaller increase in the volume of imports than in 1955 — a fact which seems to be connected with the slowing-down of economic expansion and also with a drawing-down of stocks. On the other hand, the trend of exports was very favourable, except in the case of wood products, earnings on which fell compared with 1955, mainly because of a decline in the volume of exports of round timber. Sales of all the other main categories of export products rose substantially — especially those of iron ore, iron and steel and engineering products, together with wood-pulp and paper, which still constitute the largest single export group. Thanks to a great expansion in exports to continental O.E.E.C. countries, Sweden's deficit in the E.P.U. was reduced, but that in relation to dollar countries increased, owing partly to the further freeing of dollar imports, the liberalisation percentage having been raised from 58 to 68 per cent. in the course of 1956. The import surplus was almost covered by net receipts from shipping, which increased from S.Kr. 1,025 million in 1955 to S.Kr. 1,215 million in 1956. The deficit on current account was thus reduced to S.Kr. 190 million, against S.Kr. 414 million in the previous year.

The external balance of the five southern European countries — Spain, Portugal, Greece, Turkey and Yugoslavia — which are still predominantly agricultural, is dependent mainly on their harvest results, but also on the progress of industrialisation in their economies.

Spain and Portugal: Foreign trade.

Year	Spain			Portugal		
	Imports	Exports	Balance	Imports	Exports	Balance
	in millions of gold pesetas ¹			in millions of escudos		
1953	1,835	1,485	— 350	9,513	6,283	— 3,230
1954	1,704	1,257	— 447	10,085	7,297	— 2,788
1955	1,923	1,350	— 575	11,463	8,166	— 3,287
1956	2,300 ²	1,270 ²	— 1,030 ²	12,678	8,590	— 4,088

¹ Gold pesetas 3.061 = \$1.

² Ten months at annual rate.

In the first ten months of 1956 (figures for the full year were not yet available at the time of writing) the deficit in Spain's balance of trade was twice as large as in the corresponding period of 1955. Imports rose from 1,478 million gold pesetas in 1955 to 1,917 million gold pesetas in 1956, while exports remained at practically the same level in both years. The surplus of imports over exports increased from 413 million to 860 million gold pesetas. According to U.S. trade statistics, which refer to the year as a whole, Spain's imports from the United States greatly increased in 1956, rising to over \$250 million, or 65 per cent. above the level of 1955. This large volume of imports was made possible mainly by U.S. economic assistance and programmes for the sale of surplus agricultural products, which accounted for almost \$175 million of the total in 1956. The sharp rise in Spain's overall trade deficit in 1956 was not, however, merely the counterpart of the increase in American aid. Internal inflationary pressures appear to have become greater during the year, and the foreign exchange reserves steadily declined.

The increase of Esc. 1,225 million in Portugal's imports was due in almost equal proportions to larger purchases of wheat and other food-stuffs and to heavier imports of raw materials in response to growing demand from expanding industries. Whereas imports rose in value by 11 per cent., exports increased by only 5 per cent. and the import surplus went up from Esc. 3.3 to 4.1 milliard. The deterioration in the balance of trade was mainly accounted for by trade with the E.P.U. area, while the surplus in relation to the Portuguese overseas territories increased slightly. In contrast to the worsening of the trade balance of Portugal itself, the foreign trade balance of the rest of the escudo area vis-à-vis other countries developed favourably, particularly owing to larger shipments of coffee from Angola.

Greece had a particularly large import surplus in 1956 as a result of a substantial increase in imports and only a small rise in exports. The rise in imports was mainly accounted for by machinery, transport equipment and manufactured goods, but there was also an increase in the government's

Greece and Turkey: Foreign trade.

Year	Greece			Turkey		
	Imports	Exports	Balance	Imports	Exports	Balance
in millions of U.S. dollars						
1953	294	132	- 162	532	396	- 136
1954	330	152	- 178	478	335	- 143
1955	382	183	- 199	497	313	- 184
1956	464	190	- 274	407	305	- 102

imports of foodstuffs — wheat, olive oil, sugar, etc. — for the express purpose of holding down prices. The increased supply of goods has, in fact, helped to maintain price stability. The slowness of the improvement in exports was partly due to a delay in shipments of tobacco in the second half of the year. As shown in the balance-of-payments statistics, the deficit in respect of merchandise trade rose from \$137 million in 1955 to \$206 million in 1956. Including net invisible receipts amounting to \$85 million and donations totalling \$54 million, there was a deficit of \$67 million in the current-account balance of payments, against a surplus of \$3 million in 1955.

In Turkey, on the other hand, imports contracted in 1956 following the introduction of stricter import controls in 1955 and the adoption, since the beginning of 1956, of a series of measures designed to reduce the excessive pressure of demand. Exports fell off slightly, but even so the trade deficit decreased from \$184 million in 1955 to \$102 million in 1956. Turkey receives U.S. aid on a fairly large scale. In the first half of 1956 it received \$51 million, while the deficit on current account was only \$26 million. In the corresponding period of 1955 U.S. aid had amounted to \$35 million and the deficit on current account to \$82 million. The surplus in hand at the end of the first half of 1956 was partly used to repay old commercial debts.

There was an improvement in the balance of trade of Yugoslavia in 1956, mainly on account of an increase in exports.

Exports were 25 per cent. greater than in 1955. More than one-half of the total increase of Din. 20 milliard was accounted for by larger sales

Yugoslavia: Foreign trade.

Year	Imports			Exports	Balance of trade	
	Commercial *	Tripartite aid	Total		Commercial	Total
in milliard of dinars						
1953	77.4	41.2	118.6	55.8	- 21.6	- 62.8
1954	74.7	27.1	101.8	72.1	- 2.6	- 29.7
1955	98.1	34.2	132.3	77.0	- 21.1	- 55.3
1956	110.8	31.4	142.2	97.0	- 13.8	- 45.2

* Including technical aid and supplies from the Red Cross.

of semi-manufactured and manufactured products, particularly of iron and steel, exports of which nearly quintupled. There was, in addition, an increase in exports of agricultural products, mainly livestock. Nine-tenths of the increase in imports in 1956 was accounted for by cereals, the main supplier countries being the United States and the U.S.S.R. The United States remained Yugoslavia's principal supplier, but while its share in total imports fell from 33 per cent. in 1955 to 27 per cent. in 1956, that of the U.S.S.R. increased from 3 to 15 per cent. over the same period, so that it moved up to second place as a source of supply. As regards exports, the main markets in 1956 — in order of importance — were the German Federal Republic, Italy, the U.S.S.R. and the United States, the U.S.S.R. having taken 13 per cent. of Yugoslavia's exports against only 7 per cent. in 1955.

* * *

The link between the current account of the balance of payments, on which attention has been concentrated so far, and the movement of gold and foreign exchange holdings, which is to be dealt with in the next chapter, is constituted, of course, by capital movements. During the year under review such movements helped in some countries to offset the current-account surpluses or deficits and thus to reduce their impact on the foreign exchange positions, while in others they aggravated the disequilibrium by increasing the scarcity or plethora of foreign exchange (and the domestic monetary effects thereof). This is in accordance with past experience and reflects the varied and often conflicting motives underlying movements of capital.

As a stimulus to international capital movements, the profit motive, prompted by differences in the marginal productivity of capital, is coming increasingly to the fore again. This is the result of (i) the freer play of interest rates, (ii) the emergence, within the framework of foreign exchange controls, of channels or loopholes for portfolio investment abroad, and (iii) the investment decisions of firms operating abroad.

Special institutions — the International Bank for Reconstruction and Development and the International Finance Corporation — actively supplement or encourage private capital movements for purposes of economic development, while the U.S. Export-Import Bank has the function, as defined in its statutes, of combining development with trade promotion.

The promotion of trade is of pre-eminent importance in the various arrangements under which medium and long-term credit is made available, by individual countries or by suppliers, to facilitate the export of equipment goods — such as the granting of special credit margins under bilateral payments agreements or, in the case of suppliers, the extension of trade credit, either self-financed or based on the credit facilities provided to the suppliers by commercial banks or by the credit institutions which specialise in export credit.

The movements mentioned above are all of a nature to ease the growing pains of the under-developed countries; the same applies to the use of

sterling balances accumulated during the war and the early post-war years by countries, such as India, which are now carrying out development plans. The repatriation to metropolitan France of capital from French North Africa is a factor working in the opposite direction; but it appears so far to be based on income generated by government expenditure rather than on actual disinvestment.

In the field of short-term capital movements and in the relations between the highly-developed countries abnormal movements occur more frequently. Of such a nature were, firstly, during the early summer of 1956, the movement of capital into Germany caused by expectations of currency appreciation and the movement away from some other European currencies for the opposite reason, and secondly, in the latter half of the year, the movement away from the pound (and from some continental European currencies to those of the western hemisphere) as a result of the Suez crisis. Tax motives also have the tendency to make capital move in the wrong direction, i.e. to the better-endowed countries, such as Switzerland or other safe havens. But even in the field of short-term capital transactions, the normal economic processes have sometimes played their part, through the workings of the rate of interest, in promoting equilibrating movements. The short-term exchange transactions of the International Monetary Fund are also designed to be compensatory in character.

The cross-currents created by these conflicting motivations sometimes join in one stream — Canada being a special case, in which the capital inflow due to a higher marginal productivity of capital has been swollen by the concurrence of political and tax reasons.

Only a few of these movements can be described with any degree of statistical accuracy.

International Bank for Reconstruction and Development: Disbursed loans.

Year	Europe	Asia and Middle East	Africa	Australasia	Latin America	Total loans disbursed
	In millions of U.S. dollars					
1947	300	—	—	—	—	300
1948	199	—	—	—	—	199
1949	17	15	—	—	36	68
1950	16	20	—	—	39	75
1951	8	14	13	37	57	129
1952	46	25	45	43	66	226
1953	68	18	60	45	50	240
1954	77	30	70	53	69	298
1955	81	44	38	45	77	285
1956	71	63	24	36	95	289
1947-56	884	228	249	259	488	2,108

Note: The above figures refer only to disbursed loans. Over the whole period 1947-56 loans approved amounted to \$2,922 million, of which only \$2,108 million has actually been disbursed. In 1956 alone loans authorised totalled \$507 million — the largest amount ever lent by the bank in a single year — but of this only \$289 million has actually been disbursed.

Between June 1947, when the International Bank for Reconstruction and Development began its operations, and the end of March 1957, 166 loans, for a gross amount of over \$3 milliard in all, were made in forty-four countries and territories. Since 1948, when lending for the promotion of economic development began (large credits were granted to France and the Netherlands in 1947 and 1948 for reconstruction purposes), loans for use in the sectors of electric power and transport have been predominant, having accounted for more than half of the I.B.R.D.'s lending, the rest of the funds lent having been assigned to industry, agriculture and other development purposes, in that order of importance (until 1956, when industry moved up to second place). Of the loans authorised in 1956, totalling \$507 million, over 40 per cent. were allocated for electric-power development, the largest single project being an \$80 million loan to the Federation of Rhodesia and Nyasaland for the development of the hydro-electric potential of the Zambesi River. Loans for the expansion or modernisation of industry accounted for 32 per cent. of the total. Among other large loans were that of \$74.6 million for the development of southern Italy and that of \$50 million for economic development in Australia.

In July 1956 the International Finance Corporation (I.F.C.) was established as an affiliate of the I.B.R.D., although it is a legal entity in itself and its funds are entirely separate from those of the bank. The I.F.C. was created for the special purpose of encouraging the growth of productive private enterprise, particularly in the less-developed areas of the world. When private capital is not available in sufficient quantities on reasonable terms, the Corporation, in association with private investors, will participate in loans to private enterprise without requiring any government guarantee of repayment. When the Corporation began operations it had a membership of thirty-one countries and had received capital subscriptions amounting to \$78.4 million, out of an authorised capital of \$100 million. By mid-May 1957 the number of member countries had risen to forty-nine and the total of capital subscriptions to \$92 million. Only member countries of the I.B.R.D. can join the International Finance Corporation. The I.F.C. is authorised to make investments in any form it deems appropriate, with the single exception that it may not invest in capital stock or shares. It may borrow funds by the sale of its own bonds but is not expected to make use of this possibility in its early years. Thus the amount of the funds immediately available to it for investment is limited for the time being to that of the subscribed capital. By mid-May 1957 no investments had yet been undertaken but several proposals were under active consideration.

The U.S. Export-Import Bank, although a national institution and intended primarily to promote national interests, has been an important source of dollar capital for a large number of countries. Particularly through its granting of medium and long-term credits — both with and without government guarantee, and both to governments and to private borrowers — it has facilitated the purchase of U.S. raw materials, capital goods and services

and has thus contributed to economic development abroad. The new credits authorised between July 1945 and December 1956 totalled \$7.1 milliard, of which \$4.8 milliard has actually been disbursed. In the period 1954-56 repayments somewhat exceeded disbursements, but the gross lending of the bank continued to play an important rôle in international finance. Loan authorisations increased sharply to \$992 million in 1956; this total included, however, the special credit line of \$500 million which was granted to the United Kingdom late in 1956 in order to enable it, if necessary, to make extraordinary purchases of U.S. petroleum and other products and which has not yet been drawn upon.

American private capital investments abroad, which amounted to almost \$1.2 milliard in 1955, more than doubled in 1956, when they totalled \$2.75 milliard. More than half the increase was accounted for by investments in foreign branches and subsidiaries of U.S. corporations in Canada, western Europe and Latin America, including the purchase of a British oil company in Trinidad and the acquisition of new oil concessions in Venezuela. Sales of Canadian securities to U.S. investors were greater than in 1955 and so

**United States: Capital account of the balance of payments
(including grants-in-aid).**

Items	Western Europe and dependencies		Other areas		All areas	
	1955	1956	1955	1956	1955	1956
	in millions of dollars					
Government grants	+ 800	+ 480	+ 1,060	+ 1,190	+ 1,860	+ 1,670
U.S. capital movements (outflow +)						
Government account						
Long and short-term loans . . .	+ 300	+ 360	+ 420	+ 740	+ 720	+ 1,100
Less: repayments (—)	— 260	— 290	— 160	— 190	— 420	— 480
Net total on government account	+ 40	+ 70	+ 260	+ 550	+ 300	+ 620
Private account						
Direct investments	+ 130	+ 450	+ 550	+ 1,180	+ 680	+ 1,630
Other private capital movements	+ 70	+ 270	+ 600	+ 1,010	+ 670	+ 1,290
Less: redemptions (—)	— 20	— 10	— 180	— 150	— 200	— 160
Net total on private account	+ 180	+ 710	+ 970	+ 2,040	+ 1,150	+ 2,750
Total net U.S. capital movements	+ 220	+ 780	+ 1,230	+ 2,590	+ 1,450	+ 3,370
Movements of foreign capital and gold (inflow —)						
Short-term liabilities to foreign banks and official institutions . .	— 520	— 650	— 180	— 490	— 700	— 1,140
Other	— 520	— 360	— 250	—	— 770	— 360
Total net movements of foreign capital and gold	— 1,040	— 1,010	— 430	— 490	— 1,470	— 1,500
Total of net capital movements and grants-in-aid (outflow +) .	— 20	+ 250	+ 1,860	+ 3,290	+ 1,840	+ 3,540
Errors and omissions	— 580	— 410	+ 130	— 210	— 450	— 620

were U.S. Government loans to foreign countries. The increase in the net outflow of funds compared with 1955 was also connected with the expansion in U.S. exports, which was partly financed by public and private credits.

In broad outline, the changes in the relationships between the United States and western Europe (including its dependencies) were not very different from those already described in the examination of the overall U.S. current-account balance of payments. However, it should be noted, firstly, that financial aid to western Europe declined from \$800 million in 1955 to \$480 million in 1956, while such aid to other areas showed a small increase. Secondly, U.S. military expenditure in western Europe and its dependencies showed no increase between 1955 and 1956, the entire rise having taken place in relation to other areas. Finally, a fairly large share of the outflow of private capital went to western Europe (including its dependencies), which at the same time experienced a smaller deterioration on trade account with the United States than did other areas as a group.

The capital position of the United Kingdom is similar to that of the United States in one respect — that the United Kingdom also borrows at short term and lends at long term, mainly to the sterling area. During 1956, however, while long-term lending (plus the repayment of debt) was, at £191 million, equal to the 1954-55 average, there were heavy drawings on sterling balances, which decreased by £151 million (mainly in

United Kingdom: Capital account of the balance of payments.

Items	1954	1955	1956	1955		1956	
				1st half	2nd half	1st half	2nd half
In millions of £ sterling							
Balance on current account	+ 228	- 79	+ 233	+ 23	- 102	+ 154	+ 79
Long-term capital account (outflow —)							
Inter-governmental lending and loan repayments	- 20	- 53	- 51	- 17	- 36	- 14	- 37
Other long-term capital	- 200	- 110	- 140	- 60	- 50	- 50	- 90
Total	- 220	- 163	- 191	- 77	- 86	- 64	- 127
Balance of current-account and long-term capital transactions	+ 8	- 242	+ 42	- 54	- 188	+ 90	- 48
Balanced by changes as follows:							
Overseas sterling holdings (decrease +)	- 210	+ 127	+ 151	+ 12	+ 115	+ 27	+ 124
Drawings on (—) or repayments to (+) the I.M.F.	+ 40	—	- 201	—	—	—	- 201
Gold and dollar reserves	+ 87	- 229	+ 5	- 29	- 200	+ 95	- 90
Other official holdings of foreign exchange	+ 76	+ 6	+ 35*	+ 26	- 20	+ 1	+ 34*
Miscellaneous capital (inflow —)	- 30	- 60	+ 50	—	- 60	—	+ 50
Balancing item (errors and omissions)	+ 45	- 86	+ 2	- 63	- 23	- 33	+ 35
Total	+ 8	- 242	+ 42	- 54	- 188	+ 90	- 48

* Includes payment of interest into the special waiver account (£37 million).

the second half of the year, when they fell by £124 million), chiefly on account of the action of non-sterling-area countries, whose balances decreased over the year by £132 million.

Long-term lending and the repayment of sterling balances, amounting as they did to £342 million in all, far exceeded the current-account surplus of £233 million, and the resultant drain upon the reserves was made worse by the acceleration of payments for the sterling area's imports and the delaying by traders in other parts of the world of payments for their purchases from the sterling area. This "leads and lags" change, together with miscellaneous capital transactions, caused an outflow estimated at £50 million, as against an inflow of £60 million in the previous year.

The counterpart of this change in the terms of payment is to be found in the foreign accounts of some of the United Kingdom's trade partners. In the case of Germany, the improvement in the terms of payment was reflected in part in the large positive balancing item in the foreign account (DM 722 million), which covers errors and omissions and unidentified capital transactions. This represents to a large extent an inflow of foreign exchange which took place mainly in the early summer.

The surplus in respect of merchandise trade, services and unilateral transfers amounted to DM 4,394 million, while the net rise in gold and foreign exchange holdings amounted to DM 4,673 million (made up of an increase of DM 5,095 million in the gold and foreign exchange held by the Bank deutscher Länder and a deterioration of DM 422 million in the exchange position of the commercial banks). The difference between the current-account balance and the increase in the reserves, i.e. DM 279 million, is accounted for by a net inflow of short-term funds — documentary and cash credits — of DM 385 million, a net outflow of long-term capital of DM 828 million and the afore-mentioned residual item.

Among the items contributing to the outflow of long-term capital were the debt repayments under the London Agreement (DM 452 million); private capital exports (estimated at a net amount of DM 450 million), mainly to the western hemisphere, in the form of the acquisition of participations and the creation of subsidiaries; the utilisation by the International Bank for Reconstruction and Development, for lending purposes, of part of Germany's DM quota; and financial aid to the Saar. These outward movements were to some extent offset by foreign investment in Germany, mainly by the purchase of securities.

The gold and foreign exchange holdings of Switzerland rose more during the year than those of any other European country, except Germany; the increase appears to have been mainly due, however, to foreign investment in Switzerland and Swiss disinvestment abroad as a result of the political disturbances in North Africa and the Suez crisis.

The inflow of capital into Italy was reduced from \$155 million in 1955 to \$123 million in 1956 owing to the cessation of loan issues on the Swiss

market in the middle of 1956. Direct investment of foreign capital in Italy and disbursements on the part of the I.B.R.D. both increased.

Together with Italy, the other main European recipient of I.B.R.D. assistance was Austria. The total capital inflow into Austria amounted to \$84 million in 1956, against \$35 million in 1955. This inflow included \$26 million representing drawings on loans granted by the I.B.R.D. for the financing of power stations and \$27 million of U.S. credits for the purchase of surplus agricultural commodities.

In the Netherlands one-third of the loss in reserves (Fl. 901 million) was due to a net capital outflow. Whereas in 1955 the outflow of private capital had been roughly matched by foreign direct and portfolio investment in the Netherlands totalling Fl. 595 million, in 1956 the amount of such investment fell to Fl. 43 million. The impact of the overall deficit on the country's official gold and foreign exchange holdings was, however, reduced somewhat by an increase in foreign borrowing, mainly in New York, by the commercial banks.

The increase from 1955 to 1956 in short-term indebtedness to U.S. banks, of which mention has just been made with reference to the Netherlands, appears to have been fairly widespread. According to official U.S. sources, it was largest in the case of Germany (from \$88 to 157 million) and substantial in that of Norway, Belgium, Turkey and Italy.

* * *

In the field of commercial policy, though several countries experienced growing balance-of-payments difficulties in 1956, none of them had recourse to quantitative restrictions, and the percentage of intra-European trade liberalisation was actually raised slightly during the year. The overall percentage of liberalisation, which stood at 87 per cent. in April 1956, had been raised to 89 per cent. by April 1957, mainly owing to the extension of liberalisation in Norway and the United Kingdom, where it had not previously been carried as far as in the other countries. This method of freeing trade has now begun, however, to meet with increasing difficulty, and the O.E.E.C. is examining other lines of approach, in particular in relation to the future European Economic Community. The objectives of the O.E.E.C. Council decision of January 1955 to bring the liberalisation percentage in every country up to an overall figure of 90 per cent. and to a minimum of 75 per cent. in each of the three broad categories of imports before 1st October 1956 had not been fully achieved by that date, and the time-limit has since been extended up to the end of 1957. In October 1956 the Council adopted a recommendation calling upon member countries to take further measures to relax trade restrictions in so far as their economic and financial position permitted, but no definite targets were set. Member countries are to submit to the Organisation before 1st November 1957 a detailed report on the measures taken in compliance with this recommendation.

In most countries the lowest percentage of liberalisation is that in the agricultural sector. A further effort to lessen agricultural protectionism was made in 1955, when the O.E.E.C. decided to set up a Ministerial Committee for Agriculture and Food. In the course of 1956 this committee completed a review of the agricultural policies pursued by all O.E.E.C. countries and, in addition, by Spain, Yugoslavia, the United States and Canada, and issued a report, in which it reached the conclusion that present national agricultural policies are not such as to ensure the most efficient use of Europe's agricultural resources and may create difficulties for other European countries. Pending further investigation, the Ministers of Agriculture decided that they would not introduce any new direct or indirect measures of assistance to the agricultural sector without notifying the Organisation and justifying their actions.

The liberalisation of trade with the dollar area has made great progress in some countries. It differs from the liberalisation of intra-European trade in that the reduction of quantitative restrictions is not subject to formal obligations imposed by the O.E.E.C., each country deciding for itself the extent and the timing of the measures to be taken. Overall liberalisation calculated on the basis of private imports from the United States and Canada had increased from 54 per cent. on 1st January 1956 to 61 per cent. as at 1st January 1957. Measured against total imports, the liberalisation percentage amounted to only 48 and 54 per cent. respectively, owing to the fact that a large proportion of imports from the dollar area — in particular food and feeding stuffs — are still subject to state trading. It is probable, however, that the volume of dollar imports of raw materials, basic products and industrial equipment has been affected less by the nominal degree of liberalisation, which has been substantially increased since 1953, than by the expansion in economic activity in Europe and the accompanying limitations in the supply situation, both in Europe and in other parts of the non-dollar world.

Invisible transactions between O.E.E.C. countries make up nearly one-quarter of their total current transactions. All invisible transactions relating directly to merchandise trade (e.g. insurance, maritime freights, etc.) are now free of restrictions. The proportion of current transactions between O.E.E.C. countries and the dollar area represented by invisible transactions was nearly one-third in 1955. The trend towards further liberalisation and non-discrimination continued during 1956. Germany, Italy and Norway, in particular, took far-reaching measures in this respect.

In the wider framework of the G.A.T.T. the fourth round of tariff negotiations took place in Geneva from January to May 1956. Twenty-two countries and the High Authority of the European Coal and Steel Community, acting on behalf of member states, took part in the negotiations. It is estimated that import trade in the items affected by the concessions granted amounts to about \$2.5 milliard per annum. Most of the concessions range between a reduction of 15 per cent. and the binding of existing rates.

In the regular annual session of the G.A.T.T., held in October–November 1956, it was decided to examine during 1957, on a country-by-country basis, the import restrictions which are still being maintained for balance-of-payments reasons. The Contracting Parties considered the request of the Swiss Government to accede provisionally to the General Agreement. They agreed to enter into tariff negotiations with Switzerland in 1957 on the basis of the new Swiss customs tariff after it has been approved by the Swiss Government. Japan, which acceded to the G.A.T.T. in September 1955, is still being denied the benefits of the most-favoured-nation clause by fourteen contracting parties, which have invoked Article XXXV. The Contracting Parties reiterated the recommendation that consultations between Japan and the countries concerned should continue.

The agreement providing for the establishment of a permanent organisation to be known as the Organisation for Trade Cooperation (O.T.C.), which was concluded early in 1955, has not yet come into force, since most governments have failed to ratify it. A bill authorising the participation of the United States in the O.T.C., which was originally submitted to Congress by the U.S. Administration in 1955, was reintroduced in the spring of 1957.

The treaties for the establishment of the European Atomic Energy Community (Euratom) and the European Economic Community (the common market) were signed on 25th March 1957 by the governments of the Benelux countries, France, Germany and Italy, i.e. the six members of the European Coal and Steel Community. The main aims of the European Economic Community are the abolition of tariffs and quantitative restrictions among the participating countries and the setting-up of a common tariff vis-à-vis the rest of the world, the liberalisation of transactions relating to services and the freeing of the movement of labour, the co-ordination of trade, economic and social policies, the establishment of various financial institutions and the association of overseas territories with the common market.

Import and export tariffs between the six member countries will be gradually reduced, and finally abolished, over a "transition period" of twelve years in all, which may, however, be extended to fifteen years. The transition will take place in three stages, each lasting at least four years. The passage from one stage to the next will not be automatic but will be subject to the agreement of the Council of Ministers. Quotas will be prohibited altogether within the Community upon the expiry of the transition period and in the meantime no fresh quota restrictions, other than those which may be allowed under the escape clauses of the treaty, may be imposed. After the transition period the Community is to apply a common tariff vis-à-vis third countries. In principle, this tariff is to be based on the arithmetical average of the national tariffs hitherto in force, but ceiling rates have been fixed for various groups of products and low-tariff countries will be permitted to import certain quantities of raw materials from the outside world free of duty. In

respect of agricultural products a common policy, including agreed minimum prices and common production and marketing agencies, is envisaged. During the first four-year period, however, every country will retain the right to fix the minimum prices itself and to prohibit imports which might exert pressure on these prices. Restrictions on services and the migration of labour are to be removed within the European Economic Community; no automatic reduction has, however, been provided for. Current payments connected with capital movements are to be freed from restriction by the end of the first stage.

The treaty contains basic rules for combating restrictive practices applied by governments and private enterprise. Government aids which distort market conditions, such as subsidies, export premiums, dual prices, etc., in favour of individual enterprises or branches of production are to be abolished. Measures of a private nature designed to restrict competition are to be prohibited by common legislation. However, France has been given permission to maintain its export subsidies and its equalisation taxes on imports until such time as it has achieved balance-of-payments equilibrium over a period of more than one year and until its monetary reserves have reached an appropriate level. As regards the harmonisation of social charges, the partner countries have undertaken to establish equality of pay for male and female workers and to carry out an inter-state adjustment of the conditions governing paid holidays.

Three financial institutions are envisaged:

- (a) A Re-adaptation Fund, to provide resources to tide countries over the adjustment difficulties resulting from the dismantling of obstacles to trade, to finance the retraining and, if necessary, the migration of workers and to meet the cost of temporary structural unemployment relief.
- (b) A European Investment Bank, to finance the modernisation and conversion of enterprises in the metropolitan areas of member countries; the development of economically backward European areas and projects of interest to several European countries (e.g. those connected with atomic energy) which cannot be financed otherwise. The statutes of the bank in many respects resemble those of the I.B.R.D. Its basic capital is to amount to \$1 milliard, which will be paid up to the extent of 25 per cent. in three annual instalments. One-quarter of the 25 per cent. is payable in gold or freely-convertible currencies and the remainder in local currency. The remaining 75 per cent. can be called in when the bank deems it necessary. The full quotas of the member countries are as follows: France and Germany \$300 million each; Italy \$240 million; Belgium \$86.5 million; the Netherlands \$71.5 million; and Luxemburg \$2 million. The bank will be authorised to take up loans on the capital market and it is intended that it shall rely mainly on such private funds for its financing.
- (c) An Overseas Investment Fund, to finance, during an initial period of five years, economic infra-structure investments in the overseas territories of the member countries. The fund will amount to \$581 million,

of which Germany and France will contribute \$200 million each, Belgium and the Netherlands \$70 million each, Italy \$40 million and Luxemburg \$1.25 million.

The dependent overseas territories of member countries are to be associated with the common market in matters of trade policy. By the end of the transition period the products of the overseas territories will be exempt from import duties in the continental countries, while the overseas territories themselves will merely have to grant all member countries the same tariff treatment as that hitherto granted to their European parent country. The question of the association of independent territories, such as Tunisia and Morocco, with the common market is to be the subject of later negotiations. In the case of Algeria, the relevant arrangements and investments are to be discussed in two years' time.

Member countries will be under a general obligation to pursue an economic policy aimed at the achievement of balance-of-payments equilibrium and the maintenance of confidence in the national currency. To this effect they will undertake to co-ordinate their respective policies and to ensure collaboration between their own administrative departments and central banks and those in the other countries. A number of safeguards for countries faced with balance-of-payments difficulties are provided for in the treaty, but the obligation to dismantle tariffs will remain unchanged. Exchange policies are mentioned in the treaty as being a matter of common interest and there are special provisions to guard against unilateral action in this field.

In the regular annual session of the G.A.T.T. an assurance was given on behalf of the six countries that the treaty establishing the European Economic Community would be submitted to the G.A.T.T. after signature and before its submission to the respective parliaments for ratification. In the meantime, the Intersessional Committee of the G.A.T.T., at its meeting held at the end of April 1957, decided to draw up a programme for the preparatory work (including consultations with the Interim Committee of the European Economic Community, which is to function until the treaty comes into force) to be undertaken before the question whether the articles of the treaty conform with the requirements of the G.A.T.T. is submitted to the Contracting Parties.

In October 1956, the British Chancellor of the Exchequer stated that the United Kingdom might join the common market which was under consideration so as to form a partial free-trade area — partial because food and feeding stuffs, drink and tobacco would not be included. In January 1957 the working party which the O.E.E.C. had set up in July 1956 to study the relating of the common market to the proposed free-trade area issued a report, in which it declared that it was technically possible to operate a free-trade area in Europe which would include the six countries of the customs and economic union. In February 1957 the Council of Ministers of the O.E.E.C. requested its chairman, the British Chancellor of the Exchequer, to take in hand the preparatory work for the establishment of the free-trade area and to submit proposals to the Council. For practical reasons it was

felt that the gradual relaxation of tariffs within the free-trade area should be so arranged as to correspond with the timing established for the European Economic Community. In the free-trade area, each country not a member of the European Economic Community would retain its own tariff in relation to the outside world, whereas the common-market countries would have a single tariff.

In the treaty establishing the European Economic Community it is stipulated that the rates to be adopted for the common tariff vis-à-vis the outside world will be the average of the rates applied by the individual member countries. This will mean that the new rates will be higher than those hitherto in force in the low-tariff countries of the group (the Benelux countries and, for some rates, Germany). The move towards the establishment of a free-trade area has therefore been especially welcome in such countries, since it would expand the area over which goods would be exchanged freely and would thus reduce the adverse effect of the higher tariff wall of the common-market group upon the domestic price structure of the present low-tariff countries and hence upon their competitiveness.

VI. Gold Production and Monetary Reserves.

In 1956 world gold production (excluding that of the U.S.S.R.) increased by 1.1 million ounces to a total of 28.6 million ounces. This was a continuation of the upward trend of the past few years and constituted a new record for the post-war period, exceeding the 1955 figure of 27.5 million ounces by 4 per cent. South Africa's output alone increased by 1.3 million ounces; that of all the other producing countries combined, except for the U.S.S.R., showed a slight decline. Since 1946, when output, at 21.7 million ounces, was at its lowest level since the war, gold production outside the U.S.S.R. has risen by almost one-third.

At \$35 per ounce, the value of last year's total gold production was equivalent to \$1,000 million. Gold sales by the U.S.S.R. during 1956 are estimated to have amounted to \$140 million, so that the total value of the fresh supplies that came onto the market during the year may be put at \$1,140 million. Of this amount it is estimated that \$500 million was added to official stocks. Not only was this \$160 million less than the corresponding figure for 1955, but as total fresh supplies of gold increased from \$1,035 million in 1955 to \$1,140 million in 1956, the proportion absorbed by official stocks declined from roughly two-thirds to less than one-half.

In the past, political disturbances have often led to increases in the free-market price of bar gold. This did not happen in 1956. Events in the Middle East coincided with, and were to some extent responsible for, an increase in the balance-of-payments surplus of the United States, which led to sales of gold against dollars by some countries, especially during the last two months of the year. Apart from this particular circumstance, however, there is always the stabilising influence on gold prices of the London market, which satisfies both official and private demand and in which the Bank of England has played a major rôle. Prices of gold coins on certain European markets, as shown in the graph on page 173, have risen considerably since the second half of 1955.

For the first year since 1952, the gold reserves of the United States increased, by \$305 million, which represented 60 per cent. of total additions to official stocks last year. The amount of gold physically located in the United States did not change, however, as the decrease in gold under earmark in the United States was about the same as the increase in American-owned stocks.

The sum of \$195 million which was added to the gold holdings of countries outside the United States and the U.S.S.R. was very much less than in any of the three previous years. The gold and short-term dollar holdings of these countries increased in 1956 by \$1,529 million, or 5 per cent., to a total of \$31.4 milliard. If holdings of U.S. Government bonds

and notes with an original currency period of more than one year are taken into account, the increase in gold and dollar assets of these countries amounted to \$1,395 million, or $4\frac{1}{2}$ per cent., and the overall total at the end of 1956 was \$32.9 milliard. During the last quarter of 1956, for the first time since the first quarter of 1952, their gold and dollar holdings, including those of U.S. Government bonds and notes, declined — by \$312 million.

By far the biggest single increase in gold and dollar reserves in 1956 was registered by Germany, which gained more than all the countries of continental western Europe combined, since there was a substantial fall in the reserves of France. Other European countries whose reserves increased included Italy and Switzerland, and elsewhere large gains were made by Canada and Venezuela. In both these latter countries the increase in reserves reflected a large inflow of capital from the United States. The sterling-area countries, whose gold and dollar balances had declined considerably in 1955, increased their overall holdings somewhat in 1956. The difference between the two years was to a large extent attributable to the drawing made by the United Kingdom on the International Monetary Fund, and this in turn was reflected in the fall that occurred in the gold and dollar holdings of international institutions.

Production of gold.

As in the two preceding years, the increase in world gold production outside the U.S.S.R. during 1956 was due to the rise in South African output, which went up by 9 per cent. to a new record level of 15.9 million ounces. Since 1950 the increase in annual world gold output (excluding the U.S.S.R.) has amounted to some 3.9 million ounces and during the same period the yearly output of the South African mines alone has risen by 4.2 million ounces. In percentage terms, the increase in world output has been 16 per cent. and that in South African output a little over 36 per cent., so that the latter's share of world production outside the U.S.S.R. has risen since 1950 from 47.2 per cent. to 55.5 per cent. South Africa has thus rather more than regained the position it held in 1946, when its output accounted for 55 per cent. of total production outside the U.S.S.R.

The increase of 1.3 million ounces in South Africa's gold production in 1956 was due mainly to a further rise of 1 million ounces in the output of the Orange Free State mines to a total of 3.2 million ounces, which represented about 20 per cent. of the Union's total gold production. It was only in 1951 that the Orange Free State began to contribute to South Africa's gold production but, of the increase of 4.2 million ounces in the Union's total output since then, the new mines in the Orange Free State have contributed roughly 75 per cent.

The quantity of ore milled in South Africa during 1956 rose by $2\frac{1}{2}$ per cent. to 67.5 million tons, which just exceeded the previous record figure

World gold production
(excluding the U.S.S.R.).

Countries	1929	1940	1946	1950	1953	1954	1955	1956
	weight, in thousands of fine ounces							
Union of South Africa . . .	10,412	14,046	11,927	11,664	11,941	13,227	14,602	15,893
Canada	1,928	5,333	2,849	4,441	4,058	4,366	4,542	4,396
United States	2,045	4,799	1,625	2,375	1,990	1,867	1,891	1,838
Australia	427	1,644	824	870	1,075	1,118	1,049	1,031
Ghana	208	886	586	689	731	787	688	638
Southern Rhodesia	561	826	545	511	501	536	525	535
Colombia	137	632	437	379	437	377	381	438
Philippines	163	1,121	1	334	481	418	419	406
Belgian Congo	173	559	331	339	371	365	370	374
Mexico	655	883	421	408	483	387	383	360*
Japan	335	887	40	156	258	301	288	295
Nicaragua ¹	12	163	204	230	259	233	230	216
India	364	289	132	197	223	241	211	211
Peru	120	281	158	148	140	147	163	150*
Brazil ²	112	150	140	131	116	120	110	130
Sweden	35	218	91	79	88	110	99	100*
Chile	33	335	231	192	131	125	123	85
New Guinea	36	295	1	80	121	86	74	70*
Fiji	—	111	82	103	77	72	75	63
New Zealand	120	188	119	77	39	42	27	25*
Total listed	17,876	33,624	20,744	23,403	23,518	24,923	26,250	27,254
Other countries ³	624	3,376	956	1,297	1,182	1,177	1,250	1,346
Estimated world total ³ . .	18,500	37,000	21,700	24,700	24,700	26,100	27,500	28,600
Value of estimated world total, at \$35 per fine ounce . . .	value, in millions of U.S. dollars							
	650 ⁴	1,295	760	865	865	915	960	1,000

¹ Exports, representing about 90 per cent. of total.

² Excluding the U.S.S.R.

* Estimated or provisional figure.

³ Excluding alluvial gold production, which is small.

⁴ At the official price of \$20.67 per fine ounce then in effect, \$382 million.

South African gold mines: Operating statistics.

Year	Yield per ton milled		Working costs	Working profits	Ore milled	Total working profits	Taxes	Dividends
	in dwt ¹	in value						
1938	4,349	31s. 0d.	19s. 3d.	11s. 9d.	53.8	31.9	13.7	17.2
1940	4,196	35s. 5d.	20s. 8d.	14s. 9d.	64.5	47.5	24.0	20.4
1945	3,997	34s. 7d.	23s. 9d.	10s. 10d.	58.9	31.9	16.5	12.5
1950	3,759	46s. 11d.	29s. 7d.	17s. 4d.	59.5	51.5	22.5	24.7
1954	4,068	50s. 11d.	38s. 8d.	12s. 3d.	62.4	38.2 ²	14.3	19.1
1955	4,274	53s. 10d.	40s. 5d.	13s. 5d.	66.0	44.3 ²	16.9	22.4
1956	4,553	57s. 3d.	42s. 11d.	14s. 4d.	67.5	49.5 ²	16.4	28.2

¹ One dwt (pennyweight) is one-twentieth of an ounce, equal to 1.555 grammes. At \$35 per ounce, one dwt of gold is worth \$1.75.

² Excluding estimated profits from uranium production, which increased from SA£0.1 million in 1954 to SA£17.6 million in 1955 and to SA£24.7 million in 1956.

of 67.3 million tons milled in 1941. The number of tons milled at the Witwatersrand mines declined slightly from 58.7 million to 58.1 million, while the figure for the Orange Free State mines rose from 7.2 to 9.4 million tons. Average profits rose for the third year in succession, working costs having increased by 6.2 per cent. while the yield of gold per ton milled went up by 6.3 per cent. This latter development, which has been going on for several years now, may be attributed to the exploitation of richer ores, partly as a result of the opening-up of fresh mines in the Orange Free State and partly because the minimum proportion of gold that ore must contain in order to be worth milling naturally tends to increase during a period of stable prices and rising costs of production. Average profits in 1956 were still 17 per cent. below the level of 1950, and the actual total of profits was SA£3 million less than six years before. In the Witwatersrand mines, taken as a group, average profits decreased a little, as they had done in 1955, while in the Orange Free State mines they rose by more than 23 per cent.; although substantial, this was very much less than the exceptional increase of over 150 per cent. achieved in 1955. Figures given in the 1955 Annual Report of the Transvaal and Orange Free State Chamber of Mines show that in that year there were nine mines, whose output accounted for 11 per cent. of total production, where average profits per ton of ore milled were less than 2s. Eighteen of the Union's fifty-four mines, the output of which represented just under 27 per cent. of total production, showed average profits in that year of 4s. or less per ton of ore milled. Since 1950 the number of mines whose working costs per fine ounce exceed 240s. (the sterling gold parity is 250s.) has risen from one to twenty.

The average number of natives employed in the mines was 336,000, an increase of 9,000 over 1955. In 1954 and 1955 the increase in the average native labour force over the preceding year had been 23,000 and 13,000 respectively. In these three years taken together the annual gold output of the Union rose by one-third; this was to a considerable extent made possible by the large increase — of 15½ per cent. — in the average number of native workers employed in the mines. During the same period the average European labour force employed also increased, from 46,000 to 49,000, or by 6½ per cent.

Production of uranium also increased in South Africa during 1956. As the same ores yield both uranium and gold, any allocation of costs and revenue between the two metals is of necessity somewhat artificial. From figures given by the Transvaal and Orange Free State Chamber of Mines it would appear that working profits from uranium production rose in 1956 by 40 per cent. from SA£17.6 million to SA£24.7 million, the latter figure being equal to slightly over half the profits from gold production in 1956. Of the twenty mines already mentioned whose working costs per fine ounce of gold in 1956 were in excess of 240s., six were uranium producers as well. All six of them are shown as having incurred losses on the production of gold, which, in every case but one, were more than compensated for by earnings from uranium production.

Total output in the other gold-producing countries outside the U.S.S.R. declined slightly in 1956 — from 12.9 to 12.7 million ounces. All of the four next largest producers after South Africa mined less gold than they had done in 1955, the fall in the output of Ghana amounting to over 7 per cent. Among the small producers, the only change of note was an increase of 15 per cent. in Colombia's output, from 381,000 to 438,000 fine ounces. In the absence of new discoveries of gold, such as those that have occurred in the Orange Free State since the war, and so long as operating costs continue to rise while the price obtainable for gold remains at its present level, the overall volume of gold production in countries outside South Africa and the U.S.S.R. seems likely, at best, to remain, as it has done for some years now, more or less stationary.

Gold markets and hoarding.

The total of the fresh supplies of gold coming onto the markets in 1956 was \$1,140 million. After deducting the sums already mentioned of \$140 million and \$500 million respectively for Russian gold sales and the additions to official gold reserves (the latter figure is an estimate published by the Board of Governors of the Federal Reserve System), there remains a sum of \$640 million to be accounted for. What happened to this gold cannot be established with any certainty. It seems more than likely

Estimates of "disappeared gold".

Items ¹	1949	1950	1951	1952	1953	1954	1955	1956
	in millions of U.S. dollars							
Gold production	840	865	840	870	865	915	960	1,000
Sales by the U.S.S.R.	—	—	—	—	75	75	75	140
Less: Increase in official gold reserves.	-480	-430	-150	-300	-420	-660	-660	-500
"Disappeared gold"	360	435	690	670	520	330	375	640
Accounted for by								
Industrial uses	200	180	140	180	170	180	210	240
Private hoarding ²	160	255	550	390	350	140	165	400

¹ The figures for gold production and for changes in official gold reserves exclude the U.S.S.R.
² This is a residual figure.

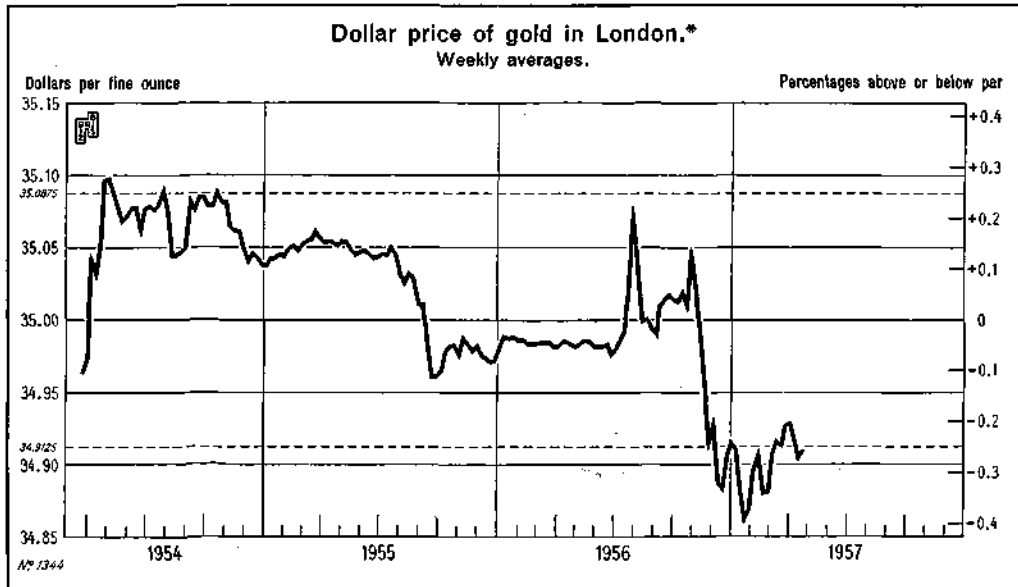
that the amount of gold absorbed by industry and the arts increased again in 1956 with the general rise in industrial output and money incomes that took place. The figure of \$400 million given for private hoarding in the table above is a residual one. The fact that there was no increase during 1956 in the prices paid for bar gold makes it unlikely that hoarding was in fact on a much larger scale than the year before. The rise in the prices of gold coins in a number of European markets, shown in the graph on page 173, for the most part reflects an increased demand for a commodity the supply of which is inelastic, together perhaps with a cessation of the dishoarding that had been in evidence during the two previous years. There was also, until the closure of the Suez Canal at the end of October 1956,

almost certainly an increase in the amount of gold absorbed by countries in the Middle and Far East which did not go into official stocks; in particular it seems likely that the rising level of incomes from oil in a number of Middle Eastern countries has led to a larger demand for gold from this source, and in many of these countries a good part of the gold purchased is not hoarded but is used for monetary purposes.

According to another set of estimates, published by the International Monetary Fund, official gold stocks increased by \$400 million in 1955 and by \$550 million in the first nine months of 1956. On this basis the residual amount attributed to private hoarding in the table above would have been \$425 million in 1955, while for 1956 it would probably be smaller than the figure of \$400 million shown.

The price of gold bars on the international markets during the period under review remained at about \$35 per ounce. The London market has continued to be the principal centre for transactions in gold bullion; the range of quotations for gold in terms of the dollar on this market was, during the period under review, 23 U.S. cents. The highest quotation was \$35.08 per ounce at the beginning of August 1956 and the lowest was \$34.85 per ounce in the last week of January 1957. As can be seen from the graph, this was a wider range of fluctuation than had occurred in the previous twelve months, but even so it was less than $\frac{3}{4}$ per cent.

During the first half of 1956 quotations moved narrowly within a range of approximately \$34.97–\$34.99 per ounce. In July 1956 prices started to rise a little and they had already reached \$35.00 per ounce just before the nationalisation of the Suez Canal. Following that event, quotations rose to a peak of \$35.08 per ounce on 1st August. By the middle of the month,



* Sterling price of gold divided by the middle sterling/dollar rate at the time of the daily gold "fixing".

however, they had fallen back again to the dollar parity price and from then until almost the end of October they moved mostly within a range of a cent or two above \$35 per ounce.

Following the outbreak of hostilities in the Middle East, prices again rose, this time to a little above \$35.06 per ounce at the very end of October. This second rise was also short-lived and it was followed by a relatively sharp break in prices, quotations falling to \$34.88 per ounce in the last week of November. As already mentioned, the low point for the period under review, \$34.85 per ounce, was reached in the last week of January 1957, since when prices have fluctuated on either side of \$34.90 per ounce.

The fact that for much of the time since the beginning of 1956 the London gold price has been less than \$35 per ounce has meant that it has continued to be profitable for member countries of the European Payments Union having deficits to settle with the Union to do so in gold. In the absence of other offsetting influences, this tends to bring the price back towards parity if it falls appreciably below. The outstanding feature of the London gold market during recent months, however, has been the maintenance of the much lower level to which prices fell during November 1956. This has been due to pressure to sell on a market in which there were already few buyers.

The London gold market is principally a central-bank market and the demand for gold in London therefore depends to a large extent on the balance of payments of other countries, particularly those of western Europe, vis-à-vis the United States. In the first nine months of 1956 countries other than the United States (including international institutions) were adding to their gold and dollar holdings (including U.S. Government bonds and notes) at an average quarterly rate of \$570 million; in the last three months of the year, however, their reserves held in this form fell, for the first time since the first quarter of 1952, by \$312 million. In the countries of western Europe, including the United Kingdom, gold and dollar reserves rose by an average amount of \$350 million during each of the first three quarters of 1956; in the last quarter of the year they decreased by \$62 million.

This deterioration was to some extent the result of the crisis in the Middle East; for instance, oil shipments from the United States, mostly to Europe, increased by \$100 million in the last quarter of 1956. The overall current balance-of-payments surplus of the United States increased from \$0.6 milliard in the third quarter to \$1.6 milliard in the fourth quarter of the year. Apart from the effects of events in the Middle East, this change was to some extent seasonal and, in addition, there would seem to have been an increase in U.S. exports that cannot be attributed to either of these causes.

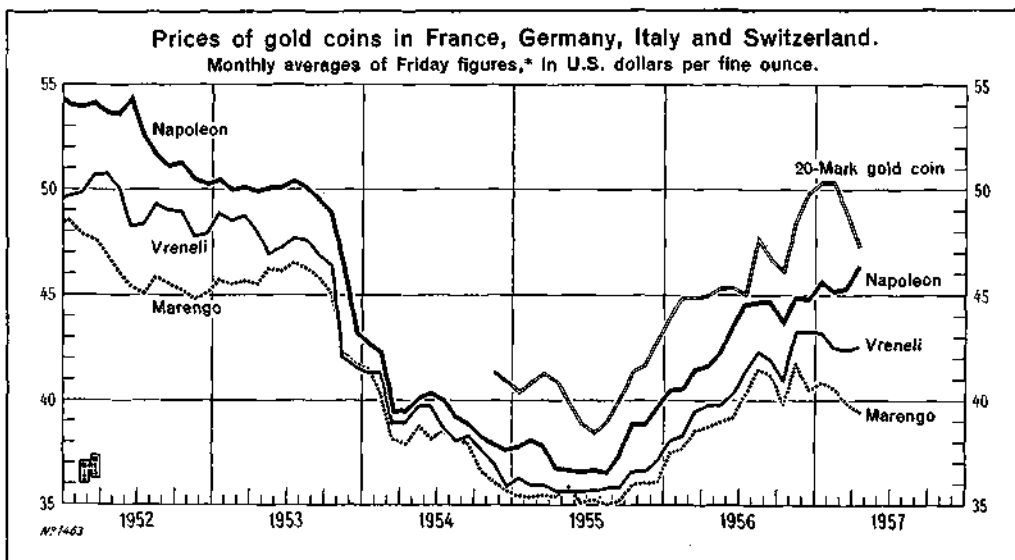
With overall gold and dollar holdings of countries outside the United States no longer rising, and some countries having to draw on their reserves, central-bank demand for gold was necessarily diminished. In addition the

continued rise in short-term rates of interest in the United States has made it attractive for central banks to hold an increasing part of their reserves in dollars rather than in gold. This has reinforced the effect on the gold market of the change in the balance of payments of the United States. Furthermore, the disturbances in the Middle East have lessened the demand for gold from that part of the world; to some extent this was the result of the fall in oil revenues in some of these countries and to some extent it may have reflected the fear of further disturbances.

On the supply side of the market, the regular offerings of South African gold were reinforced at the end of 1956 and again in the first quarter of 1957 by substantial sales on the part of the U.S.S.R.

In these circumstances it is not surprising that the London gold price has been so low in recent months. In fact, for a considerable period at the end of 1956 and early in 1957 the dollar price of gold in London was below the figure of \$34.9125 per ounce at which the Federal Reserve Bank of New York stands ready to buy from central banks. Those countries which had to draw on their dollar balances or on gold earmarked in New York in order to settle their balance-of-payments deficits with the United States were not in a position to use dollars to build up their gold holdings in Europe and they kept out of the market, except for the monthly purchases of gold to settle deficits in the European Payments Union. During the period November 1956 to January 1957 \$453 million of gold was released from earmark in the United States, \$296 million of it in January 1957 alone. This latter figure reflects gold sales by the International Monetary Fund to the U.S. Treasury totalling \$300 million in that month.

In contrast to the steadiness of the prices of gold bars, there has since the second half of 1955 been a very considerable increase in the prices of gold coins. The following graph shows the development over recent years of quotations for the Napoleon in Paris, the Vreneli in Basle, the Marengo in Milan and the 20-Mark gold coin in Frankfurt. The dollar prices of the Napoleon and the Marengo have been calculated on the basis of the free-market rate in Switzerland for French and Italian bank-notes. For the Vreneli the dollar bank-note rate in Switzerland has been used and for the 20-Mark piece the official dollar rate in Frankfurt. From the middle of 1955 the exchange rates used in calculating the dollar prices of the Vreneli, the Marengo and the 20-Mark piece have varied very little and the movements shown in the prices of these coins therefore do not represent changes in the external value of the respective currencies. In the case of the free-market rate for French bank-notes in Switzerland, however, the monthly average of quotations was almost 10 per cent. lower in March 1957 than it had been in August 1955, at the end of which month the rise in prices began. Thus the average monthly value of the Napoleon, expressed in dollars per ounce, was \$36.55 in August 1955 and had risen to \$45.35 in March 1957, an increase of almost \$9 per ounce, or 24 per cent. Over the same period the price of the Napoleon in French francs



* For the 20-Mark gold coin, Wednesday figures.

rose by 36 per cent. Thus the line on the graph showing the dollar price of the Napoleon is somewhat flattened by the fall that has taken place in the free-market value of French franc bank-notes.

The prices of coins on the different markets are, as can be seen, by no means the same, but the movements in prices are for the most part in the same direction. It was at the end of August 1955 that the rise in quotations began, owing to political and economic difficulties which stimulated demand in France and to increased purchases by the Middle East. Another factor at this time may have been the decision of the Swiss National Bank in October 1955 not to market any more Vrenelis, a decision which would tend to raise the price of these coins. The reaction of the different prices to the political disturbances of 1956 was by no means identical; in particular the price of the 20-Mark gold coin rose much more sharply in November and December 1956 than did any of the others (indeed, the Marengo fell back in December 1956); the reason for this was probably the fact that there are fewer of these coins still in existence than there are Napoleons or Vrenelis, so that the price reaction to an increase in demand is more pronounced. In the first four months of 1957, however, quotations fell away quite sharply.

During the period under review there have been two changes in the regulations affecting the gold market inside Germany. In June 1956 the import of gold coins into the Federal Republic was authorised. To begin with they could only be brought in by foreign travellers or German residents returning from trips abroad. Later in the same month, however, the German banks were allowed to import gold coins as commodities. This measure was in effect a legalisation of the smuggling that had been going on since the internal market in gold coins was reopened in 1954. On

1st April 1957 the import of gold bars from member countries of the European Payments Union was liberalised; payment is made in Deutsche Mark of limited convertibility, i.e. Bekomarks, and as these are at a slight discount vis-à-vis the dollar, the import of gold by this method is rather more expensive than against dollars. However, only industrial users are permitted to import gold into the Federal Republic against payment in dollars. Exports of gold, whether in bars or coins, from the Federal Republic still require a permit.

Changes in monetary reserves.

The table on the following page shows the gold reserves of central banks and governments (excluding the U.S.S.R.) and of international institutions. These official gold holdings rose by \$500 million in 1956, compared with \$660 million the year before, and amounted at the end of last year to \$38.5 milliard. The most notable development was the fact that, for the first time since 1952, the gold stock of the United States increased, by \$305 million. Two-thirds of this rise was accounted for by sales of gold amounting to \$200 million by the International Monetary Fund. As a result, to a considerable extent, of these sales, the gold holdings of international institutions fell by \$130 million during 1956.

The gold reserves of European countries, including the United Kingdom, rose by \$407 million, compared with \$412 million in 1955. Germany's holdings increased by \$574 million and Switzerland's by \$79 million. In other European countries changes in gold holdings were insignificant.

The gold holdings of countries other than the United States, the European countries, the U.S.S.R. and international institutions decreased by \$81 million; in 1955 they had increased by \$108 million. The biggest rise was that of \$200 million in Venezuela's gold reserves; on the other hand, those of the Argentine fell by \$157 million, while a loss of \$36 million was sustained by Indonesia and one of \$30 million by Uruguay. During 1956 the Argentine became a member of the International Monetary Fund and of the International Bank for Reconstruction and Development; that part of its subscription to these two institutions which was paid in gold amounted to \$40.5 million. Canada's gold reserves also fell, by \$28 million.

The slowing-down of the rate of accumulation of gold by countries other than the United States and the U.S.S.R. was a continuation of the trend that has been visible since 1954. The first table on page 176 shows the changes during the past five years in the gold holdings of the United States, western Europe, international institutions and the rest of the world outside the U.S.S.R. For the period as a whole, whereas the overall increase in gold reserves was \$2.5 milliard, the rise in European holdings was \$2.8 milliard. In 1953 there was a substantial movement of gold from American into European ownership; since then, during the past three years, 88 per cent. of the total increase in gold reserves has gone to Europe. In contrast, the

Gold reserves of central banks and governments
(including international institutions).

Reporting countries or institutions	End of							Change during 1956
	1936	1945	1950	1953	1954	1955	1956	
	in millions of U.S. dollars							
European countries								
Germany	29 ¹	0	0	326	626	920	1,494	+ 574
Switzerland	701	1,342	1,470	1,459	1,513	1,597	1,676	+ 79
Portugal	86	433 ²	192	361	429	428	448	+ 20
Italy	193	24	256	346	346	352	362	+ 10
Norway	84	80	50	52	45	45	50	+ 5
Austria	98 ³	0	50	47	56	65	65	0
Denmark	53	38	31	31	31	31	31	0
Finland	26	3	12	26	31	35	35	0
France	2,757	1,550	523 ⁴	576 ⁴	576 ⁴	861 ⁴	861 ⁴	0
Greece	27	28	2	10	11	11	11	0
Iceland	1	1	1	1	1	1	1	0
Ireland	10	17	17	18	18	18	18	0
Spain	525 ⁵	110	61	54	56	56	56	0
Turkey	29	241	150	143	144	144	144	0
Belgium	780	733	687	776	778	929	928	- 1
Sweden	321	482	90	218	265	276	266	- 10
Netherlands	998	270	311	737	796	865	844	- 21
United Kingdom ⁶	2,877	1,980	2,900	2,300	2,550	2,050	1,600	- 250
Other countries								
United States	14,592	20,083	22,820	22,091	21,793	21,753	22,058	+ 305
Venezuela	54	202	373	373	403	403	603	+ 200
Mexico	29	294	208	158	82	142	167	+ 25
Egypt	55	53	97	174	174	174	186	+ 14
Union of South Africa	220	914	197	176	199	212	224	+ 12
Belgian Congo	6	16 ⁷	23	86	115	116	122	+ 6
Lebanon	—	2	20	35	63	74	77	+ 3
Chile	30	82	40	42	42	44	46	+ 2
Bolivia	3	22	23	22	5	0	1	+ 1
Brazil	32	354	317	321	322	323	324	+ 1
Pakistan	—	—	27	39	39	48	49	+ 1
Cuba	1	191	271	186	186	136	136	0
El Salvador	7	13	23	29	29	28	28	0
Guatemala	7	29	27	27	27	27	27	0
India	274	274	247	247	247	247	247	0
Iran	26	131	140	137	138	138	136	0
Japan	230	119 ⁸	128	130	126	128	128	0
New Zealand	23	23	29	33	33	33	33	0
Peru	20	26	31	36	35	35	35	0
Thailand	—	86	116	113	113	112	112	0
Ecuador	3	21	19	23	23	23	22	- 1
Canada	192	361	590	996	1,080	1,141	1,113	- 28
Australia	6	53	88	117	138	144	115	- 29
Uruguay	73	195	236	227	227	216	186	- 30
Indonesia	80	201 ⁹	209	145	81	81	45	- 36
Argentina	431	1,197	216	371	371	371	214	- 157
International institutions								
European Payments Union	—	—	—	153	153	244	269	+ 24
Bank for International Settlements	14	39	167	193	196	217	179	- 38
International Monetary Fund	—	—	1,494	1,702	1,740	1,908	1,692	- 116
Total listed above	25,993	32,315	34,881	35,862	36,431	37,102	37,657	+ 565
Other (excl. U.S.S.R.)	427	1,455	929	818	909	898	833	- 65
Estimated world total (excl. U.S.S.R.)¹⁰	26,420	33,770	35,810	36,680	37,340	38,000	38,500	+ 500

¹ Pre-war Germany. ² End of 1946. ³ Beginning of March 1938. ⁴ Reported holdings of the Bank of France only. ⁵ April 1938. ⁶ Beginning with 1945 estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System. ⁷ June 1945. ⁸ September 1945. ⁹ March 1946. ¹⁰ I.M.F. estimate for 1938, and Federal Reserve estimates for later years. Includes reported gold holdings, unpublished holdings of various central banks and governments, and estimated official holdings of countries from which no reports are received.

Changes in official gold holdings 1952-56.

Items	1952	1953	1954	1955	1956	1952-56
	In millions of U.S. dollars					
Total	+ 300	+ 420	+ 660	+ 660	+ 500	+ 2,540
United States	+ 379	- 1,161	- 298	- 40	+ 305	- 815
Rest of the world (excluding U.S.S.R.)	- 79	+ 1,581	+ 958	+ 700	+ 195	+ 3,355
Of which						
Europe, including United Kingdom .	- 225	+ 1,409	+ 791	+ 412	+ 406	+ 2,793
International institutions	+ 336	+ 2	+ 41	+ 180	- 130	+ 429
All other countries	- 190	+ 170	+ 126	+ 108	- 81	+ 133

rest of the world's holdings, excluding those of international institutions, have increased by only \$133 million; the sum of \$429 million that has been added to the holdings of international institutions is still available, in one way or another, as part of the general stock of international liquidity.

Another feature of 1956 was the fact that, for the first year since 1951, the total of gold held under earmark in the United States declined. The fall of \$320 million was almost exactly equal to the increase of \$305 million which took place in the United States' own gold reserves, so that the total amount of gold physically located in the United States remained unchanged at \$28.7 milliard.

The table shows that the increase in the total of official gold stocks held outside the United States during 1956 amounted to \$510 million, or \$10 million more than the increase in the gold reserves of all countries,

Changes in official gold stocks of countries other than the United States.*

Year	Changes in earmarked gold in the United States	Changes in supplies held outside the United States			Changes in total supplies of countries other than the United States
		Net imports from (+) and exports to (-) the United States	Increase from other sources	Total	
in millions of U.S. dollars					
1946	- 470	- 310	+ 510	+ 200	- 270
1947	- 210	- 1,870	+ 350	- 1,520	- 1,730
1948	+ 160	- 1,680	+ 370	- 1,310	- 1,150
1949	+ 500	- 690	+ 480	- 210	+ 290
1950	+ 1,350	+ 370	+ 450	+ 820	+ 2,170
1951	- 620	+ 550	+ 170	+ 720	+ 100
1952	+ 300	- 680	+ 300	- 380	- 80
1953	+ 1,170	- 0	+ 410	+ 410	+ 1,580
1954	+ 330	- 20	+ 650	+ 630	+ 960
1955	+ 130	- 100	+ 670	+ 570	+ 700
1956	- 320	- 110	+ 620	+ 510	+ 190
Total 1946-56	+ 2,320	- 4,540	+ 4,980	+ 440	+ 2,760

* Including international institutions but excluding the U.S.S.R.

including the United States, but excluding the U.S.S.R.. If this increase of \$510 million is compared with the rise of \$190 million in the gold reserves of countries other than the United States and the U.S.S.R., the importance of the London gold market for the disposal of newly-mined gold is apparent. Taking the three years 1954-56, which roughly correspond to the period since the London gold market was reopened, it can be seen from the table that the total of gold held in official stocks physically located outside the United States increased by \$1,710 million; during the same three years the total increase in the gold holdings of countries other than the United States and the U.S.S.R. was \$1,850 million. The physical distribution of the world's gold supplies has therefore slightly changed, the share located in the United States having fallen from 77.9 per cent. at the end of 1953 to 74.5 per cent. at the end of 1956.

The increase of \$1,529 million which occurred during 1956 in the gold holdings and short-term dollar balances of countries other than the United States (including international institutions) was \$150 million greater than the previous year's rise. These countries' holdings of U.S. Government bonds and notes with an original currency period of more than one year decreased by \$134 million in 1956 (they had risen by \$529 million in 1955), and if this is taken into account their gold and dollar holdings rose by \$513 million less than they had done in 1955. There were significant changes in some countries' holdings of U.S. Government bonds and notes, and these are shown in the following table. So far as dollar holdings only are concerned, it is estimated in the Federal Reserve Bulletin for March 1957 that foreign-owned private balances rose by \$850 million and official holdings (including those of international institutions) by \$345 million; this was the reverse of what happened in 1955, when the former are estimated to have risen by \$310 million and the latter by \$900 million.

Last year's movements in reserves, looked at in detail, present a number of contrasts with those in 1955. The accumulation of gold and dollars by the

Gold and dollar holdings.

Countries	Change during 1956 in		
	gold and short-term dollar holdings	holdings of U.S. Government bonds and notes	gold reserves and total dollar assets
in millions of U.S. dollars			
Canada	+ 455	- 69	+ 386
France*	- 451	- 144	- 595
Netherlands*	- 29	- 35	- 64
Norway	- 9	+ 34	+ 25
Switzerland	+ 161	+ 87	+ 248
United Kingdom	+ 207	- 79	+ 128
International Institutions	- 545	+ 70	- 475
All other countries	+ 1,740	+ 2	+ 1,742
Total	+ 1,529	- 134	+ 1,395

* Including dependencies.

**Gold and short-term dollar holdings
of countries other than the United States¹**
(including International Institutions).

Areas and countries	Gold and short-term dollar holdings at end of				Changes during		
	1947	1954	1955	1956	1955	1956	1947-56
in millions of U.S. dollars							
Western Europe other than the United Kingdom							
Austria	10	329	326	361	- 3	+ 35	+ 351
Belgium-Luxemburg ² . . .	798	1,044	1,201	1,224	+ 157	+ 23	+ 426
Denmark	85	102	91	96	- 11	+ 5	+ 11
Finland	31	72	64	88	+ 12	+ 4	+ 57
France ²	776 ³	1,306 ³	1,957 ³	1,506 ³	+ 651	- 451	+ 730
Germany	90	1,999	2,374	3,327	+ 375	+ 953	+ 3,237
Greece	49	124	187	186	+ 63	- 1	+ 137
Italy	204	925	1,137	1,288	+ 212	+ 151	+ 1,084
Netherlands ²	406	1,118	1,100	1,071	- 18	- 29	+ 665
Norway	128	148	124	115	- 24	- 9	- 13
Portugal ²	373	560	601	628	+ 41	+ 27	+ 255
Spain ²	124 ⁴	188	221	160	+ 33	- 61	+ 36 ⁴
Sweden	164	406	429	483	+ 23	+ 54	+ 319
Switzerland	1,792	2,185	2,354	2,515	+ 169	+ 161	+ 723
Turkey	208	152	153	164	+ 1	+ 11	- 44
Other western European holdings ⁵	342	948	872	907	- 76	+ 35	+ 565
Total	5,580	11,606	13,211	14,119	+ 1,605	+ 908	+ 8,539
Other continental European countries⁶	568	309	308	287	- 1	- 21	- 281
Sterling area							
United Kingdom ⁷	2,348	3,190	2,600	2,807	- 590	+ 207	+ 461
U.K. dependencies	58	92	84	103	- 8	+ 19	+ 45
Australia	119	186	219	192	+ 33	- 27	+ 73
India	336	334	320	323	- 14	+ 3	- 13
South Africa	613	232	265	277	+ 33	+ 12	- 536
Rest of sterling area	65	189	214	220	+ 26	+ 6	+ 155
Total	3,737	4,223	3,702	3,922	- 521	+ 220	+ 185
Canada	718	2,616	2,173	2,628	- 443	+ 455	+ 1,910
Latin America	2,981	3,673	3,789	4,119	+ 116	+ 330	+ 1,238
Asia	1,593	2,224	2,624	2,812	+ 400	+ 188	+ 1,219
All other countries	117	310	354	348	+ 44	- 6	+ 231
Total for all countries	15,194	24,961	26,161	28,235	+ 1,200	+ 2,074	+ 13,041
International Institutions ⁸	3,693	3,510	3,689	3,144	+ 179	- 545	- 549
Grand total	18,887	28,471	29,850	31,379	+ 1,379	+ 1,529	+ 12,492

¹ Short-term dollar holdings consist of deposits, U.S. Government obligations and some other short-term paper. They cover both official and private holdings, as reported by selected banks in the United States. For 1947 the maximum time from issue to maturity of the short-term assets included is twenty months; for the other years it is twelve months.

² Including dependencies.

³ Including gold reserves of the Bank of France and French dependencies only. The figure for the end of 1955 reflects the publication by France of certain previously unpublished French gold reserves which are included for earlier dates in "Other western European holdings".

⁴ Excluding overseas territories, which are included in "Other western European holdings".

⁵ Includes holdings of Yugoslavia, the Bank for International Settlements and the European Payments Union, gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold and unpublished gold reserves of western European countries.

⁶ Excludes gold reserves of, but includes dollar balances held by, the U.S.S.R.

⁷ Holdings of gold and U.S. dollars based on figures as reported by the British Government.

⁸ Includes the International Bank for Reconstruction and Development, the International Monetary Fund, the United Nations and other international organizations. Excludes the Bank for International Settlements and the European Payments Union, which are included under "Other western European holdings".

Source: Mainly based on the Federal Reserve Bulletin, April 1957.

countries of continental western Europe slowed down from \$1,605 million to \$908 million or, if holdings of U.S. Government bonds and notes are included, from \$1,688 million to \$863 million. Germany's gold and short-term dollar holdings rose much faster than in 1955 — by \$953 million compared with \$375 million in 1955. The fact that the overall increase in western European gold and dollar reserves was less than the increase in Germany's reserves alone was due to the dramatic change from 1955 to 1956 in the position of France, which, taking into account holdings of U.S. Government bonds and notes, turned round from a gain of \$641 million to a loss of \$595 million. Another change compared with 1955 was the very much smaller increase, of only \$23 million, in the reserves of the Belgium-Luxemburg Economic Union; on the other hand, both Italy and Switzerland added substantially to their gold and dollar holdings, as they had done the year before.

The table on page 177 shows the gold and dollar reserves of the Netherlands as having fallen during 1956 by \$29 million; if holdings of U.S. Government bonds and notes are taken into account the decrease amounts to \$64 million. Both these amounts are considerably smaller than that of Fl. 477 million, equivalent to \$126 million, which (see table on page 145) represented that part of the Netherlands' total balance-of-payments deficit for 1956 of Fl. 901 million which was settled in gold and convertible currencies. There are various reasons for this discrepancy. The figures of \$29 million and \$64 million mentioned above both refer to the Netherlands and its dependencies; if the latter are excluded, the fall in the gold reserve and total dollar holdings of the Netherlands alone comes to approximately \$86 million; the difference between this figure and the overall Netherlands gold and dollar deficit of \$126 million is accounted for by the fact that, while the Nederlandsche Bank's holdings of gold and convertible foreign exchange fell by \$128 million, the convertible currency balances of Netherlands commercial banks rose by \$39 million, a sum almost equal to the amount of \$36 million which was received by the Netherlands during 1956 in gold and convertible currencies from countries with which it has bilateral payments agreements.

The gold and short-term dollar balances of the sterling-area countries, which had fallen by \$521 million in 1955, rose in 1956 by \$220 million. If holdings of U.S. Government bonds and notes are included, the loss in 1955 was \$451 million and the gain in 1956 \$148 million. Whichever figures are taken, the changes correspond closely to those in the United Kingdom's own position. The latter's gold and total dollar assets had declined in 1955 by \$524 million; in 1956 they rose by \$128 million. The improvement was thus \$652 million, 86 per cent. of which was accounted for by the drawing on the International Monetary Fund.

Of the four member countries of the European Payments Union whose reserves increased appreciably last year — Germany, Italy, Switzerland and the United Kingdom — only Germany owed most (\$763 million) of its gains to its E.P.U. position; the other three all had deficits with the Union and they made gold and dollar payments to the Union amounting in all to

\$389 million. France's loss of gold and dollars during 1956 was for the most part due to its position in the E.P.U., to which it paid \$501 million in gold and dollars during the year. The loss of reserves which resulted from transactions outside the E.P.U., though only \$94 million, has to be compared with gold and dollar receipts from these sources of \$646 million in 1955. This was the result of a decrease of some \$430 million in external aid, coupled with an increase of about \$230 million in imports from the dollar area.

Another important movement in reserves during 1956 was the increase of \$455 million in Canadian gold and short-term dollar holdings, which contrasted sharply with the fall of roughly the same amount which had occurred the year before. Account must also be taken, however, of changes in Canadian holdings of U.S. Government bonds and notes. As these rose by \$344 million in 1955, what appears in the table of gold and short-term dollar holdings as a loss of reserves during that year was in fact for the most part a redistribution of assets between different categories; on the other hand, in 1956, when Canadian holdings of U.S. Government bonds and notes fell by \$69 million, the movement in the gold and short-term dollar holdings reflected fairly faithfully the change in total gold and dollar assets. The rise during 1956 was, of course, due to the very sharp increase from \$648 million to \$1,431 million in the inflow of foreign capital into Canada; in particular, the volume of new Canadian loans floated abroad, mainly in the United States, rose by \$515 million.

In Latin America, gold and short-term dollar holdings rose by \$330 million, the principal gains being those of Venezuela (\$390 million) and Brazil (\$84 million); the Argentine's reserves, on the other hand, fell by \$149 million. In the countries of Asia, the rise of \$188 million in gold and dollar holdings was mainly accounted for by Japan, whose reserves held in this form went up by \$138 million.

As shown in the table on page 177, the gold holdings and total dollar assets of international institutions declined during 1956 by \$475 million. In fact they fell by \$574 million in the last quarter of the year alone — due to the drawing of \$561 million from the International Monetary Fund by the United Kingdom; in this quarter, as already mentioned, the overall decline in gold and dollar holdings amounted to \$312 million; the holdings of individual countries outside the United States, taken as a whole, therefore increased by \$262 million. During these three months the reserves of western Europe, including the United Kingdom, fell by \$62 million.

It is now just ten years since, on 5th June 1947, Mr Marshall, then U.S. Secretary of State, made the speech at Harvard University which led to the drawing-up and execution of the plan that bears his name. The object of the Marshall Plan was to provide the funds and thus the imports needed for the economic rehabilitation of western Europe. The table on page 178 shows that between the end of 1947 and the end of 1956 the gold and short-term dollar holdings of all countries other than the United

States increased by \$12.5 milliard, or two-thirds. The principal beneficiaries under the Marshall Plan were, roughly speaking, the countries grouped in the table under the heading "Western Europe other than the United Kingdom", plus the latter. Over this same nine-year period their reserves increased from \$7.9 milliard to \$16.9 milliard, or by 114 per cent.

It has been in the period since the Marshall Plan officially came to an end on 30th June 1952 that reserves have gone up most; by that date the reserves of all the countries shown in the table on page 178 had increased since the end of 1947 — that is, just before Marshall aid funds began to flow — by \$3.7 milliard, or 20 per cent., to \$22.6 milliard. Those of the Marshall aid countries, as defined above, rose during the same period by \$1.9 milliard, or 24 per cent., to \$9.9 milliard. Between the middle of 1952 and the end of 1956, the reserves of western European countries, including the United Kingdom, went up by \$7.1 milliard, or 72 per cent., while those of all the countries shown in the table rose by \$8.8 milliard, or 39 per cent. It was thus after the Marshall Plan had provided the funds needed for economic reconstruction that the countries of western Europe were in a position to earn for themselves the sums needed for the rebuilding of their monetary reserves. Some have done this more successfully than others. Germany, starting from scratch, now has by far the largest reserves in Europe; on the other hand, the reserves of the sterling-area countries taken together were at the end of last year only a little higher than they had been before Marshall aid began; in Denmark, Finland, Norway, Spain and Turkey there has also been virtually no rebuilding of reserves, and in France too, although reserves were nearly twice as high at the end of 1956 as they had been nine years previously, they were by no means large, and losses during the early months of 1957 will certainly have reduced them considerably.

During the year 1956 the official gold and dollar holdings of the United Kingdom increased by £5 million; this was after taking credit for amounts of £201 million and £63 million respectively drawn on the International Monetary Fund and received from the sale of the Trinidad Oil Company, and after deducting £37 million of interest due on loans from the United States which was set aside in a special account. If these special items are excluded, the reserves are found to have fallen in 1956 by £222 million. And yet the current account of the balance of payments showed a surplus of £233 million. That the reserves would have fallen, but for the special items, by an amount almost equal to the current balance-of-payments surplus is explained by two factors: firstly, overseas investment (excluding the Trinidad transaction) amounted to £306 million, and, secondly, other countries drew down their sterling balances by £151 million.

The year 1956 was the second in succession in which the total of sterling balances held by individual countries declined. The holdings of sterling-area countries decreased by only £19 million. The chief point of interest here

United Kingdom: Sterling balances.*

End of	Non-sterling-area countries					Sterling-area countries			Grand total
	Dollar area	Other western hemisphere countries	O.E.E.C. countries	Others	Total	British colonies	Others	Total	
in millions of £ sterling									
1945	34	163	412	623	1,232	454	2,008	2,462	3,694
1950	79	45	395	492	1,011	735	1,999	2,734	3,745
1951	38	57	409	514	1,018	928	1,863	2,791	3,809
1952	34	6	239	398	677	1,024	1,518	2,542	3,219
1953	62	40	223	370	695	1,093	1,705	2,798	3,493
1954	97	8	244	430	779	1,221	1,703	2,924	3,703
1955	58	9	213	417	697	1,280	1,599	2,879	3,576
1956	37	32	193	303	565	1,286	1,574	2,860	3,425

* Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which rose by £200 million in 1956 and amounted to £669 million at the end of the year.

was the fact that, for the first time in any year since the war, there was no significant increase in British colonial balances; since 1945 these balances have risen by £832 million — the total of balances held by all countries had declined over the same period by £269 million — which represents somewhat more than half of the official estimate of £1,589 million for U.K. investment in the sterling area during the years 1946–56. In the absence of a considerable rise in the prices of the commodities exported by these countries and with their development schemes tending to increase in scope, it may be that the overall level of colonial balances will remain stationary or even decline somewhat in the next few years. The independent sterling-area countries' balances decreased by £25 million in 1956; this relatively slight overall change conceals substantial movements in the holdings of individual countries. The foreign assets of the Reserve Bank of India, consisting almost entirely of sterling, decreased during 1956 by £154 million; on the other hand, Australian net holdings of foreign exchange, also predominantly sterling, increased by £55 million during the year and there were also additions to the balances held by Burma and Iraq.

Outside the sterling area, balances fell by £132 million. The bulk of this fall was accounted for by the group of "other" countries; figures published by the International Monetary Fund show that Japanese holdings of sterling decreased by £53 million, and there was also a decline in China's sterling balances. The balances of O.E.E.C. countries rose by £10 million in the first half of the year and declined by £30 million in the second six months. Sterling held outside the sterling area at the end of 1956 amounted to £565 million, which represented 16.5 per cent. of the total sterling balances of individual countries; the corresponding figures at the end of 1945 were £1,232 million and 33.3 per cent. and at the end of 1951 £1,018 million and 26.7 per cent.

The increase of £200 million which occurred in the sterling holdings of non-territorial organisations represents the sterling counterpart of the U.K. drawing on the International Monetary Fund. The year 1956 saw a very substantial increase in the Fund's activities, after a long period of inactivity. The following table shows roughly the three phases into which the life of the Fund up to 1956 can be divided. In the first three years drawings were considerable and naturally greatly exceeded repayments. But

International Monetary Fund:
Exchange transactions and stand-by arrangements.

Years	Drawings	Repayments ¹	Net drawings ²	Stand-by	
				Agreed	Drawn or expired
in millions of U.S. dollars					
1947-49	777.2	19.7	757.5	—	—
1950-52	119.7	199.6	— 79.9	55.0	—
1953-55	319.5	762.8	— 443.3	62.5	55.0
1956	692.6	113.3	579.3	1,077.2	22.4
Total	1,909.0	1,095.4	813.6	1,194.7	77.4

¹ Repurchases and other countries' drawings.

² Drawings less repayments.

in 1949 drawings were down to \$101.5 million, and in the next six years they totalled \$439.2 million, an average of \$73.2 million per annum. Moreover, in 1953 alone, when Japan drew \$124 million in sterling, total drawings were \$229.5 million. In each of these six years, and particularly during the last three of them, repayments exceeded drawings, and by the end of 1955 the total of drawings outstanding was down to \$234.3 million.

In 1956 drawings on the Fund totalled nearly \$700 million and in addition stand-by arrangements amounting to almost \$1,100 million were concluded. The largest single transaction was with the United Kingdom in December 1956; an amount of \$561.5 million was drawn immediately and stand-by facilities were granted for a further \$738.5 million, for a period of twelve months from 10th December 1956. Together these two sums are equal to the United Kingdom's quota of \$1,300 million. The next largest drawing in 1956 was that of \$55 million by Indonesia in August. There were also smaller drawings by Egypt, Burma, the Philippines and Paraguay.

On 18th October 1956 an arrangement was concluded with France under the terms of which the latter could, within twelve months of that date, draw up to \$262.5 million in foreign currencies from the Fund. This sum is equal to 50 per cent. of the French quota. France did not start to make use of these facilities until February 1957; by the middle of May 1957 sums totalling \$220 million had been drawn. Stand-by arrangements were also concluded in 1956 with Bolivia, Chile, Cuba, Iran and Nicaragua.

In February 1957 India entered into an arrangement with the International Monetary Fund for a total amount of \$200 million, equal to 50 per

cent. of its quota. \$60 million was drawn in February, and a further \$67.5 million in March; the remaining \$72.5 million may be drawn at any time until March 1958. Also in February 1957, Egypt drew a further \$15 million from the Fund.

Taking the year 1956 as a whole, countries outside the United States continued to add substantial amounts to their gold and dollar holdings, despite the fact that the current balance-of-payments surplus of the United States more than doubled to a figure of \$2.9 milliard, the highest since 1951. This was possible because the outflow of private capital from the United States increased at the same time as did the current-account surplus. The two movements were in fact associated; for instance, the growth in Canada's import surplus in 1956 was to a considerable extent connected with the increase in foreign, mainly U.S., investment in Canada.

Continental western Europe's share in the upward movement of reserves was smaller than in 1955, and the improvement in the United Kingdom's position was to a large extent due to the assistance received from the International Monetary Fund. Furthermore, the two European countries which added most to their gold and dollar assets last year — Germany and Switzerland — were those whose reserves stood highest at the end of 1955. The countries with very low reserves did not improve their position during the year, and France, after two years of rapid accumulation in 1954 and 1955, used up a substantial part of its gains.

The crisis in the Middle East and the closing of the Suez Canal undoubtedly added to Europe's dollar requirements, and a return to normal communications and oil supplies will certainly afford some relief in this respect. On the whole, however, the impact of these events on reserves has been relatively moderate, except for the speculation against sterling that took place in the last months of 1956. In a number of European countries reserves are still inadequate to meet the calls that may be made upon them and greater efforts than in the past will be needed if this weakness is to be remedied; it is in the field of internal economic policy that these efforts will have to be concentrated if a sound basis for the further expansion of international trade and payments is to be established.

VII. Foreign Exchange.

During the past year there has been further steady but unspectacular progress in a number of countries towards greater freedom in matters of foreign exchange. Moreover, those countries in western Europe which have recently experienced difficulties in their balance-of-payments positions have so far refrained from reimposing direct controls on their external transactions. Five western European countries — Belgium, France, Italy, the Netherlands and Sweden — have extended, in varying degrees, the facilities for the transfer of their currencies between non-residents. Other developments include some further relaxations of exchange controls in the German Federal Republic (one of which was the total abolition of foreign-currency rationing for travel purposes), the addition of Austria to the European arbitrage scheme and the virtual freeing from all restrictions of dealings in foreign bank-notes in Italy. On the other hand, in France, under the pressure of the balance-of-payments deficit, some restrictive steps had to be taken early in 1957, although there was no reduction in the trade-liberalisation percentage.

In April 1957 the previous multiplicity of exchange rates in Spain was done away with and single buying and selling rates of Pts 42.00-42.27 = U.S.\$1 were established. In Turkey also there have been some changes in exchange rates during the period under review.

The rates of exchange applied to foreign visitors in a number of eastern European countries have been substantially devalued. This happened in Czechoslovakia (August 1956), Hungary (July 1956), Poland (February 1957) and the U.S.S.R. (April 1957).

In Latin America the movement away from bilateralism and unrealistic multiple exchange rate systems, though by no means universal, has continued. In July 1956, payments between the Argentine and a number of western European countries were put on a multilateral basis, while the Hague Club arrangements between Brazil and certain European countries were extended during the year to include Austria, France and Italy. In Bolivia the multiple exchange rate system was abolished in December 1956 and a single fluctuating rate of exchange introduced. Colombia and Uruguay have made some changes in their multiple rate systems.

Elsewhere, a new parity of Rijals 75.75 = U.S. \$1 has been established in Iran and there have been alterations in exchange rates in Indonesia.

* * *

During the past year there have been a number of further developments in the countries belonging to the European Payments Union towards greater freedom from exchange restrictions. Foremost among the measures taken was

the extension of the transferability of the French franc, the Dutch florin, the Belgian franc, the Italian lira and the Swedish krona for non-residents.

In France, until the end of 1955 the only current accounts of non-residents — apart from those of dollar-area residents — which were automatically intertransferable were those of residents of the E.P.U. countries and their monetary areas. Beginning with the Argentine in December 1955, however, a number of other countries have been added to this group and in March 1957 the transferable-franc area included — as well as the E.P.U. countries and the Argentine — Brazil, continental China, Finland, Formosa, Hungary and Paraguay. In the case of the Argentine and Hungary, purely bilateral accounts continue to exist side by side with the transferable accounts and, as the former must be used for certain transactions, these two countries cannot be said to belong fully to the transferable-franc area.

In the Netherlands, until July 1956 the only current non-resident accounts, apart from those of dollar-area residents, which were freely intertransferable were those of residents of the countries then taking part in the European arbitrage scheme, viz. Belgium-Luxemburg, Denmark, France, the German Federal Republic, Italy, Norway, Sweden, Switzerland and the United Kingdom. In that month, however, the number of countries between which current-account florins might be transferred with complete freedom was extended to include all the E.P.U. countries (except Turkey), plus Afghanistan, Brazil, Chile, Ethiopia, Finland, Iran, the Lebanon, Saudi Arabia, Sudan, Syria, Tangiers, Thailand and Yemen. Uruguay was added in November 1956.

In Italy, new transfer facilities for non-resident holders of lira accounts were introduced in February 1957. Until then, countries outside the dollar area were divided by the Italian exchange control into two groups. The first, within which there was already freedom for making transfers, comprised the countries taking part in the European arbitrage scheme, plus the Argentine and Brazil. The second group was made up of those countries whose current lira accounts were only usable bilaterally, namely Albania, Bulgaria, Czechoslovakia, Ecuador, Egypt, Finland, Greece, Hungary, Indonesia, Iran, Israel, Paraguay, Poland, Portugal, Roumania, Spain, Turkey, the U.S.S.R., Viet-Nam and Yugoslavia. These two groups were amalgamated in February 1957, since when the lira has been freely transferable throughout the non-dollar world. So far as the countries whose accounts were previously bilateral are concerned, however, until the bilateral payments agreements between them and Italy expire or are terminated all payments by Italians to residents of those countries, and vice versa, will continue to be made through the bilateral accounts; in other respects, the new system of multilateral accounts came into effect at once.

In Belgium, new regulations concerning the transferability of the Belgian franc came into force on 1st April 1957. Until then, current accounts of non-residents, apart from those of dollar-area residents, were divided into three groups. Firstly, there were the accounts of residents of E.P.U.

countries (except Turkey), which were freely intertransferable. Secondly, there was a group of countries — Bulgaria, Chile, Czechoslovakia, Egypt, Finland, Hungary, Poland, Roumania, Spain, Turkey, Uruguay, the U.S.S.R. and Yugoslavia — whose accounts were only usable bilaterally. Thirdly, there was a group of countries with which Belgium has no payments agreements and which comprised all non-dollar countries not included in the first two groups. Within this third group franc balances were intertransferable, as well as being transferable to the accounts of residents of either of the other two groups of non-dollar countries; residents of the E.P.U. and bilateral-agreement countries could not make transfers to residents in the third group.

On 1st April 1957, the first and third of these groups were amalgamated, thus making current franc balances freely transferable throughout the non-dollar world except for the group of bilateral-agreement countries, which was at the same time reduced in size by the inclusion of Chile and Finland in the area of transferability.

Sweden was one of the original participants in the European multilateral arbitrage arrangements introduced in May 1953, and since then the current-account krona balances of residents in the other participating countries have been freely intertransferable for arbitrage purposes. On 1st March 1957 the area within which the krona is transferable was extended to include, in addition to the countries referred to above — namely Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Norway, Switzerland and the United Kingdom — also the Argentine, Japan and Uruguay. Current accounts of residents of these countries are known as transferable regular accounts; balances on such accounts are all freely intertransferable and in addition they are transferable to all other regular (i.e. current) krona accounts, except those of dollar-area residents.

The United Kingdom and Germany had already in 1954 liberalised the regulations governing transfers of their currencies between non-residents. A comparison of the regulations in force in these two countries with those of the five countries already discussed brings out the following main points:

- (a) All these countries distinguish between the dollar area and the rest of the world. In all seven of them, current accounts of dollar-area residents are freely transferable to all other types of current non-resident account.
- (b) Outside the dollar area, current accounts in pounds, Deutsche Mark and lire (the latter with the qualifications mentioned on the preceding page) are freely transferable between all countries. In Belgium, France, the Netherlands and Sweden, countries outside the dollar area are divided into two groups: the areas of transferability already described, within which transfers from one country to another are automatically allowed, and the groups of bilateral countries.

(c) So far as the capital accounts of non-residents are concerned, there is complete freedom of transfer throughout the world — including from non-dollar to dollar countries — for holders of sterling (with the exception, at the time of writing, of Egypt), Deutsche Mark and Belgian franc capital accounts. In Sweden, capital accounts are all on a bilateral basis. France, Italy and the Netherlands divide capital accounts into three groups:

- (i) those of dollar-area residents (in the Netherlands, residents of Canada and the United States only), which are intertransferable;
- (ii) those of residents of E.P.U. countries and their monetary areas, which are also intertransferable;
- (iii) all others, which are on a bilateral basis.

Transfers from capital to current accounts are not allowed in France, Italy, the Netherlands, Sweden and the United Kingdom. In Germany they are allowed freely to Bekomark accounts (i.e. DM accounts of limited convertibility, which are available to all non-residents but are in practice the current accounts of residents of countries outside the dollar area) and within a limit of DM 500 a month to freely convertible DM accounts (which, again, are available to all non-residents). In Belgium, transfers from capital accounts are allowed to all current accounts, except to those which are freely convertible into dollars. This means that in Germany and Belgium, but not in the other countries mentioned, balances on capital accounts may not only be sold by one non-resident to another, but may be withdrawn at official rates of exchange in unlimited quantities by non-residents outside the dollar area and, in Germany, by dollar-area residents also, in limited amounts.

There is thus clearly a tendency to distinguish only between the dollar area and the rest of the world, so far as current accounts are concerned. Moreover, even this distinction is becoming blurred. There has always been some price at which non-resident sterling could be converted into dollars on the free exchange markets; since February 1955, however, when the Exchange Equalisation Account was given authority to intervene in the free exchange markets, the price, for holders of transferable (i.e. current-account) sterling, has been only some 1 per cent. more than the official sterling/dollar rate quoted in London and New York. As it is also possible to convert current-account balances in the currencies of ten other members of the European Payments Union into sterling at rates that cannot fluctuate more than $\frac{3}{4}$ per cent. on either side of par, holders of these other currencies can convert them into dollars indirectly via transferable sterling at rates within about 2 per cent. of par. This means that direct conversion of current-account balances in these other currencies into dollars can also be effected at much the same price as for sterling, since arbitrage tends to harmonise the various free rates quoted for current-account balances in European currencies against the dollar. Thus the barriers between the dollar area and the rest of the world described above, although they will continue to exist until the currencies concerned are formally declared convertible,

have in fact already been lowered to the point at which they can fairly painlessly be surmounted.

There were certain other developments during the past year which involved an extension of the transferability of some European currencies. At the beginning of July 1956 there came into operation the multilateral payments arrangements agreed upon between the Argentine and a group of western European countries to which reference was made on page 139 of the Bank's Twenty-sixth Annual Report. The European countries taking part in these arrangements are Austria, Belgium-Luxemburg, Denmark, France, Italy, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. All payments, in either direction, between the Argentine and these countries may be made indifferently in the currency of any one of the latter, since under the agreement they are all intertransferable. The Hague Club arrangements with Brazil, which served as the model for those described above, were enlarged during 1956 by the inclusion of Italy in June, Austria in July and France in August 1956; the members of the Hague Club now total seven. It is perhaps worth mentioning that there are six European countries — Austria, Belgium, France, Italy, the Netherlands and the United Kingdom — which take part in the multilateral payments arrangements with both the Argentine and Brazil. Denmark, Norway, Sweden and Switzerland belong to the Argentine Club only and Germany to the Hague Club only.

* * *

Apart from the widening of the areas in which European currencies can be used, a number of other alterations in exchange control regulations in some of the E.P.U. countries, most of them in the direction of further relaxation, are worth mentioning. In the United Kingdom, in June 1956 non-residents other than banks were, for the first time since the war, allowed to deal directly on the London foreign exchange market. In October the obligation to complete exchange control formalities in respect of exports of £500 or less and imports, together with most invisible payments, of £250 or less was abolished. This was not a relaxation of the regulations governing either the surrender of export proceeds or the obtaining of foreign currency for imports, but merely meant that, within the limits specified above, the carrying-out of such transactions according to the regulations was no longer supervised. In November 1956 it was announced that residents travelling abroad could in future take the whole of their travel allowance of £100 with them in foreign bank-notes; previously the limit on the export of foreign bank-notes in this way was £25. Regulations governing the import and export of sterling notes remain unchanged.

As in previous years, the removal of exchange restrictions in the German Federal Republic was not only made possible by the large external surplus but formed part of the policy adopted by the authorities to try and moderate it. Liberalisation of trade vis-à-vis the other members of the O.E.E.C. had already stood at 90 per cent. or more since the beginning

of 1954; in June 1956 liberalisation of dollar imports too was increased to over 90 per cent. In these circumstances, the principal measures of exchange liberalisation taken in Germany during the past year have applied to non-commercial, and in particular capital, transactions.

As mentioned in the Bank's Twenty-sixth Annual Report, the obligation to surrender foreign exchange receipts after a certain period was abolished in May 1956 and at the same time residents were allowed to buy quoted foreign securities. Following these measures, in June 1956 residents were permitted to purchase abroad German foreign bonds, and loans of Länder, municipalities, industrial enterprises and the Konversionskasse. Then in August permission was given for residents to effect forward transactions on foreign stock exchanges and to purchase with hard currencies securities denominated in soft currencies. This latter measure, however, was of limited importance, since any securities purchased with hard currency may only be resold for hard currency. A further relaxation of the restrictions on dealings in foreign securities was made in September 1956, when German financial institutions were allowed to purchase foreign securities from German residents against Deutsche Mark and to resell them to other residents for Deutsche Mark. Direct trading between German residents in foreign securities is, however, still not allowed. As from 1st October, direct investment abroad in plant and in branch offices by German firms was made entirely free up to a limit of DM 3 million. Finally, since February 1957 all German residents have been allowed to open and maintain indefinitely accounts in any foreign currency which is quoted in the Federal Republic.

Mention should also be made of the abolition, in October 1956, of the rationing of foreign exchange for travel abroad. Since that date, German residents have been allowed to buy unlimited amounts of any currency for travelling expenses; the export of money for investment and for the mere accumulation of foreign balances, although freely allowed as already mentioned, is still subject to supervision by the authorities. The abolition of currency rationing for travel means, however, that to some extent money can be taken out of the country and subsequently used in ways that cannot be supervised.

Another development of importance during the past year was the termination of all but one of Germany's remaining bilateral payments agreements, which provided for swing margins and for settlement via a central clearing account expressed in "agreement dollars". The introduction of the Bekomark (i.e. Deutsche Mark with limited convertibility) in March 1954, although it provided non-residents with a Deutsche Mark that was freely transferable throughout the non-dollar area, did not mean the end of bilateral payments between Germany and other countries. At that time there were seventeen countries whose payments with Germany, to the extent that they were governed by a payments agreement, were settled by means of a central clearing account expressed in "agreement dollars". The winding-up of these accounts has been a slow process. In October 1954 a payments agreement

with Finland came into effect, the first of its kind, providing for settlements between the two countries to be made in Bekomarks instead of in "agreement dollars". Similar agreements have since come into force with Spain (May 1955), Brazil, Japan and Paraguay (October 1955), Hungary (February 1956), Uruguay (April 1956), Bulgaria and Egypt (July 1956), Iran and Yugoslavia (October 1956), Poland (January 1957) and Czechoslovakia (April 1957). The only country with which settlements still take place in "agreement dollars" is the Argentine. Germany was one of the countries invited to become a member of the multilateral payments system which came into force last July between the Argentine and nine European countries. Negotiations with this object in view have not so far been completed owing to difficulties over the settlement of the Argentine's outstanding debt to the Federal Republic. When this matter is resolved, however, the last of Germany's bilateral payments agreements of this kind will be terminated.

Developments in France during the past year have taken place in circumstances which were the opposite, from the point of view of monetary reserves, to those of Germany. In view of the heavy loss of foreign exchange (see pages 179-180) there was little room for relaxation of exchange control restrictions. Except for the extension of the area of transferability of the franc (already described above) the exchange measures taken in France during the period under review were therefore rather of a restrictive nature. In September 1956 the Office des Changes announced that it was no longer prepared to supply foreign exchange at official rates to enable French residents to take up new issues of securities by foreign companies in which they already hold shares. This concession had been introduced only a year previously, in November 1955, and its withdrawal meant that residents wishing to take up these securities would once again have to purchase so-called "devises-titres", i.e. foreign exchange representing the proceeds of a sale of foreign securities by some other resident. Quotations for "devises-titres" at the end of April 1957 were about Fr.fcs 490 = U.S.\$1 — a premium of some 40 per cent. on the official franc/dollar rate. The market in this sort of foreign exchange is a very narrow one.

In February 1957 the foreign exchange allowance for travel purposes was reduced from Fr.fcs 70,000 to Fr.fcs 35,000 a year. In the following month measures to restrain imports were announced. There was no reduction in France's trade-liberalisation percentage with the O.E.E.C., but import quotas, where these still applied, were in some cases reduced; import certificates, whereby individual traders were given permission to import specified goods for an indefinite period, were abolished. The validity of import licences was reduced from six to three months, and traders were obliged to deposit a sum equal to 25 per cent. of any goods which they apply for permission to import when licences are issued to them. In addition, the special temporary tax on imports, introduced originally in 1954, was applied at the rate of 15 per cent. to all liberalised goods, except fuels and raw materials; this means that it now applies to more goods than

before and that what was previously the maximum rate of tax — the range was from 7 to 15 per cent. — has become the only one. Also, since March 1957 better-class hotels in France have been allowed to give a rebate of 15 per cent. on bills for food and lodging paid by non-residents in their own currencies, whether in notes or by drafts. The 15 per cent. rebate is recoverable from the government in the form of a reimbursement of fiscal and social charges.

In Italy the principal exchange development during the year, apart from the abolition of the bilateral lira for current payments already mentioned on page 186, was the freeing in June 1956 of the domestic market in foreign bank-notes. Since then authorised banks in Italy have been permitted to purchase foreign bank-notes from non-residents and also from residents who have acquired them from non-residents in payment for goods and services. Foreign bank-notes may be sold to residents travelling abroad and, in addition, residents may buy such bank-notes for the purpose of investing in foreign bonds and shares and in partnerships in enterprises domiciled outside Italy. Foreign bank-notes may be sold to non-residents against lire accruing to them in respect of repayments of capital invested in Italy and of interest and dividend payments. The banks may deal in foreign bank-notes with one another, with the Italian Exchange Office and with foreign banks. Also since June 1956 residents travelling abroad have been allowed to take with them the equivalent in foreign currencies of Lit. 500,000; previously the limit was Lit. 130,000.

In connection with the new law governing foreign investment in Italy, which came into force in February 1956, accounts called "special accounts relative to the law of 7th February 1956" have been created. Any foreign investor may use such an account for all transactions connected with his investments, so as to separate them from any other lira transactions he may make. The purpose of this new kind of account is simply to enable foreign investors who wish to repatriate capital or earnings to show more easily that they are conforming with the regulations of the above law, which provides complete freedom for the repatriation at official rates of exchange of capital invested since February 1956 in "productive" investments, together with all earnings therefrom. Repatriation of earnings from "non-productive" investments is limited to 8 per cent. per annum on the capital invested, and repatriation of such capital may not take place via the official exchange market earlier than two years from the time of the original investments. The bank-note market described above can, as mentioned, be used to repatriate any capital and earnings not eligible for repatriation at official rates of exchange.

Austria became a member of the European arbitrage scheme in January 1957. There are only four members of the European Payments Union — Greece, Iceland, Portugal and Turkey — who do not take part in these arrangements.

In Denmark the premiums paid to exporters who sell their goods in the dollar area have been reduced. These premiums, which are available for the purchase of goods anywhere in the member countries of the O.E.E.C. and their monetary areas and other designated countries, were lowered from 10 to $7\frac{1}{2}$ per cent. on 1st January 1957.

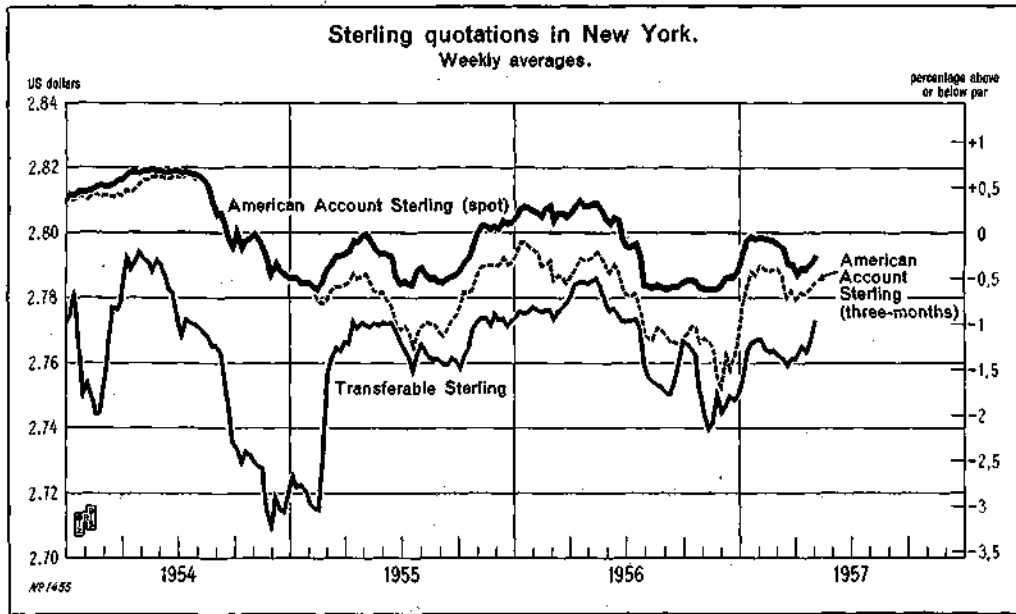
In Turkey certain steps were taken during the period under review which amounted to a partial devaluation of the currency. In October 1956 new buying and selling rates of T£5.25 and T£5.75 = U.S.\$1 were introduced, in addition to the existing official rates of T£2.8-2.825 = U.S.\$1. A principal use of the new selling rate is for the repatriation by non-residents of certain categories of blocked assets in Turkey. It applies, for instance, to the repatriation of the net profits of branches of foreign companies operating in Turkey, the net earnings of foreign air-lines from sales of tickets in Turkey and the income from and liquidation proceeds of investments originally financed by imports of foreign exchange approved by the Turkish Finance Minister. The new rates also apply to tourist transactions both by residents and non-residents, to certain minor exports and to imports (within individual limits of T£5,000 per annum) of spare parts for use in Turkish industry.

There are now therefore two officially recognised buying and selling rates for the Turkish pound. However, as varying subsidies for exports and taxes on imports amount to a substitute for multiple exchange rates, it should be mentioned that in March 1957 taxes were imposed on all imports, at a rate of 40 per cent. in most cases. Previously there had been taxes on some marginal imports only. In addition, since September 1953 subsidies have been paid on certain minor exports; at present the range of these subsidies is from 20 to 75 per cent.

* * *

One aspect of the lack of full convertibility of European currencies is the existence of more than one rate of exchange. The different rates are, however, in most cases much fewer and also closer together than they were a few years ago.

During 1956 quotations for the pound sterling against the dollar on the official exchange markets were for long periods very steady, although the level of quotations was much higher in the first than in the second half of the year. From the beginning of the year until the last week of June spot rates were consistently between \$2.80 and \$2.81. A slight weakening to just below par then took place and this was followed a month later, when the Suez Canal was nationalised, by a sharp fall to \$2.78 $\frac{1}{4}$. Subsequently the rate stayed at or just above that level more or less continuously — there was a short-lived rise in the first half of October — until the second week of December. These developments coincided roughly with the changes in the United Kingdom's monetary reserves over the year. During



the first seven months the reserves increased by \$285 million; during the last five months they fell by \$272 million. In this latter period, however, there were special receipts of \$177 million in September from the sale of the Trinidad Oil Company to American interests and of \$561 million in December in the form of a drawing on the International Monetary Fund. But for these two transactions, the loss of reserves during the last five months would have amounted to \$1,010 million, while over the whole year it would have been \$725 million. This latter figure is slightly more than one-third of the total reserves at the beginning of 1956.

The strains to which the reserves and the exchange rate were subject during the latter half of the year came at a time when the current account of the balance of payments was in surplus. For the whole year the surplus was £233 million, of which £154 million was earned in the first six months. The current account surplus, however, was more than offset in the second half of the year by the deterioration on capital account, this being the result partly of large drawings on sterling balances by a number of countries, notably India, and partly of a "leads and lags" movement which altered the timing of payments to the disadvantage of the United Kingdom. This latter development was the result of uncertainties felt about the United Kingdom's economic position following the nationalisation and subsequent closure of the Suez Canal.

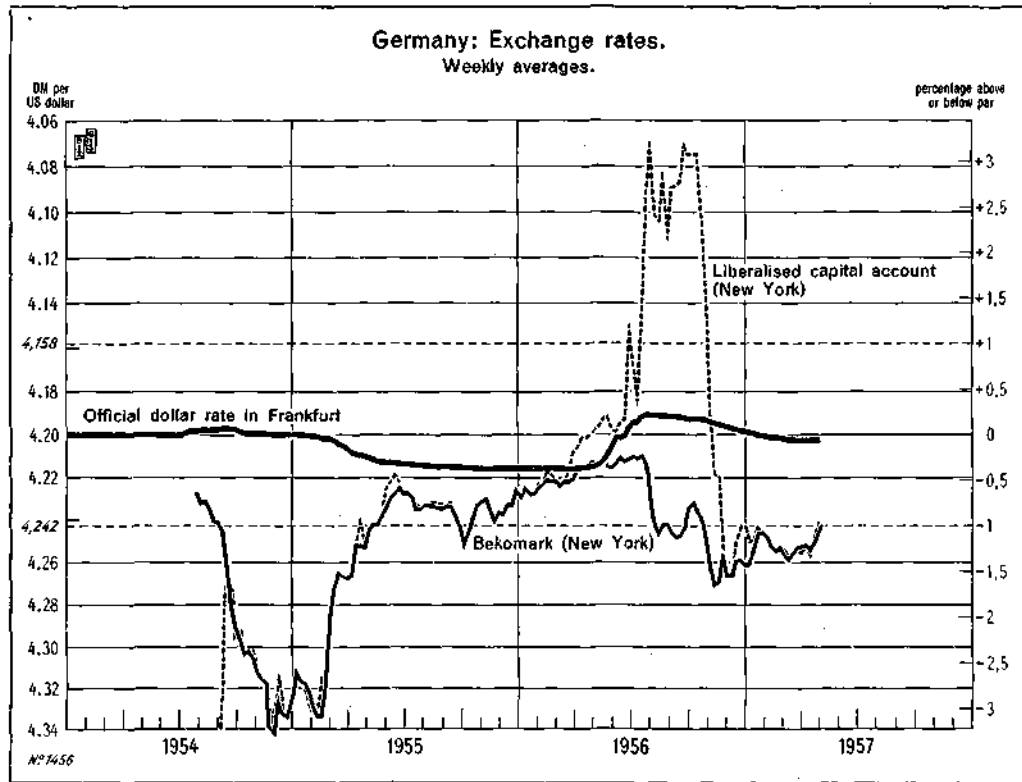
These uncertainties, besides depressing the spot rate against the dollar, also affected forward quotations for the pound. As can be seen from the graph, the discount on three-months forward sterling in New York did not contract during the latter half of the year, although during this period the difference between three-month Treasury bill rates in London and New York diminished from over 2½ per cent. to about 1½ per cent., and since

September 1956 the three-months forward discount on the pound has been almost continually greater, expressed as an annual rate of interest, than the difference between the London and New York bill rates. This was specially marked in November and December 1956. During the same two months, when the loss of reserves was at its greatest (totalling \$672 million, excluding the drawing on the International Monetary Fund), transferable sterling was, for the first time since the Exchange Equalisation Account was given authority in February 1955 to intervene in the free markets for sterling, quoted mostly below \$2.75. The difference between quotations for transferable and American Account sterling, which since that date had been continually about 1 per cent. and sometimes less, widened to over $1\frac{1}{2}$ per cent. when in the middle of November transferable sterling quotations fell to \$2.73 $\frac{1}{2}$. Since then the difference between the two rates has narrowed again and in May 1957 it amounted to some $1\frac{1}{2}$ U.S. cents, or little more than $\frac{1}{2}$ per cent.

Following the announcement on 10th December 1956 that the United Kingdom had arranged to draw \$561 million from the International Monetary Fund, with the option to draw up to a further \$739 million during the following twelve months, the pound strengthened somewhat on the foreign exchange markets. In January this movement continued and in the middle of the month spot rates for American Account sterling momentarily reached par for the first time since June 1956, subsequently remaining slightly below that level. At the end of February and the beginning of March, rates weakened again and, following the outbreak of a strike in the British ship-building industry and the threat of possible strikes in other industries, quotations fell on 19th March to below \$2.79; since then they have fluctuated around that figure.

Quotations for security sterling fluctuated quite widely during 1956. Rates were highest in the early months of the year, and reached about \$2.78 $\frac{1}{4}$ in April; in the following months there was a steady decline which brought the rate down to \$2.60 by the end of September; during November quotations fell very sharply to as low as \$2.47, which represented a discount of roughly 12 per cent. on par, subsequently rising again to slightly above \$2.60, by the end of the year. After three months, during which the rate was fairly steady at about this level, in April 1957 quotations again declined, and reached about \$2.56 by the middle of May.

The measures of exchange liberalisation adopted in the German Federal Republic last year, to which reference has already been made, did not prevent the country's foreign exchange reserves from rising much faster than they had done the year before; the persistence and the size of Germany's export surplus, besides being the main reason for the balance-of-payments surplus, gave rise to rumours from the spring of 1956 onwards that the Deutsche Mark might perhaps be revalued, in spite of repeated official denials. The result was that the payments surplus increased rapidly in the second and third quarters of the year.



Note: Liberalised capital marks were introduced on 16th September 1954; previously these marks were known as Sperrmarks.

The development of quotations for the Deutsche Mark against the dollar during 1956 showed a number of points of special interest. In March and April, quotations for Bekomarks and liberalised capital marks rose above those for the U.S. dollar on the official exchange market in Frankfurt. For a short time, therefore, as can be seen from the graph, the freely convertible Deutsche Mark was the cheapest to buy, in terms of dollars. At this point transferable sterling was being quoted at rates not far short of U.S.\$2.78 against the dollar, while on the European exchange markets it was at a discount on the Deutsche Mark, and so it became momentarily cheaper for holders of dollars to buy transferable sterling via the official Deutsche Mark/dollar market than directly, since they could thus buy, at a discount, Deutsche Mark which in turn could be used to buy sterling at a discount, the total discount on these two transactions being greater than the discount on transferable sterling against the U.S. dollar. As a result of these arbitrage transactions, which produced a considerable offer of dollars for Deutsche Mark, and for other reasons, not the least of which was the speculation on an increase in its official value, the Deutsche Mark rose slowly against the dollar on the official market, reaching par at the beginning of June and subsequently rising a little more, until from August onwards rates began to fall, again very gradually, coming back to par at the beginning of 1957 and subsequently declining a little further.

During the past year the movements in the rates quoted for liberalised capital marks have been quite spectacular. In March 1956 quotations moved above the official Deutsche Mark/dollar rate, then slightly below par, and in the middle of April the capital mark was quoted at par with the dollar for the first time. No longer ago than the summer of 1953 the Sperrmark (the predecessor of the liberalised capital mark) had been quoted at discounts of up to 40 per cent. In the second half of July 1956 quotations for capital marks rose very quickly from $\frac{1}{2}$ per cent. to more than 3 per cent. above par; after some fluctuations between 2 and 4 per cent. above par during the next three months, quotations suddenly fell at the end of October even more rapidly than they had risen and by the end of November rates were 1 per cent. or more below par; since then they have moved to a considerable extent in sympathy with the Bekomark rates, below which they cannot fall, since balances on liberalised capital mark accounts are freely transferable to Bekomark accounts.

The principal causes of the increase in the value of the liberalised capital mark were two. Firstly, the supply of capital marks is limited. Total capital mark balances amounted to DM 402 million at the beginning of 1956; they decreased to DM 375 million at the end of March but during the rest of the year they mostly increased again, especially in November 1956, and at the end of the year they stood at DM 476 million. Secondly, the demand for these balances, which are the only means open to non-residents of investing in Germany (except with the special permission of the exchange control authorities), increased last year for a number of reasons. German interest rates continued to be higher than those in most other countries and were particularly high during the summer, and industrial issues on the German capital market, both of shares and of bonds, increased considerably in 1956; in addition, some foreign enterprises with interests in Germany may have found that the tightness of money during the summer made it necessary to augment their working balances by purchasing liberalised capital marks. Moreover, the speculation about a possible upward change in the official value of the Deutsche Mark must certainly have added to the demand for liberalised capital marks. Thus it is easy to see why such a relatively large premium should have developed; at the end of October, however, events in Hungary and the Middle East led to some repatriation of funds by foreign investors, which explains the sudden fall in quotations at that time. Dollar quotations for the Bekomark follow closely those of transferable sterling, any differences between the two reflecting the Deutsche Mark/sterling exchange rate on the European markets.

* * *

In some of the countries of eastern Europe there have been radical alterations in the exchange rates applied to purchases of local currencies by foreign visitors. With effect from 1st April 1957 the U.S.S.R. introduced preferential rates for foreign tourists, representatives of foreign countries and foreign news correspondents. The premiums on the official rates apply to

western currencies only and vary, as between different currencies, from $33\frac{1}{3}$ per cent. to 150 per cent. The official exchange rate is Roubles 4 = U.S.\$1 and the equivalent in other currencies. The new non-commercial rate for the dollar is Roubles 10, for the pound sterling Roubles 27.60 (instead of Roubles 11.20) and for the French franc Roubles 28.57 (instead of Roubles 11.43) = Fr.fcs 1,000.

In July 1956 it was announced by the Hungarian Government that, in exchange for any currency sold when in Hungary, foreign tourists would receive in addition to the official rate of Frt 11.74 = U.S.\$1 (and the equivalent for other currencies) the following premiums:

- (a) 100 per cent. for U.S. and Canadian dollars, sterling, Belgian and Swiss francs, florins, Deutsche Mark and escudos;
- (b) 80 per cent. for Egyptian pounds, Danish, Norwegian and Swedish crowns, French francs and Italian lire;
- (c) 60 per cent. for Austrian schillings and Finnish markkas.

Thus the effective rates for these three groups of currencies are, expressed as rates for the U.S. dollar, Frt 23.48, 21.13 and 18.78 respectively.

In August 1956 certain concessions to foreign tourists in Czechoslovakia were made. These visitors usually purchase hotel vouchers with which to pay their hotel expenses while in Czechoslovakia. Since 1st August 1956 every foreign visitor has been able to buy crowns at one-third of the official rate of Kčs 7.20 = U.S.\$1 in amounts up to twice the value of the vouchers which he has purchased.

In February 1957 the Polish Government announced rates of exchange for foreign visitors which give the zloty one-sixth of its official value. Thus the rate against the U.S. dollar is Zl. 24 = U.S.\$1, compared with the official parity of Zl. 4 = U.S.\$1. These rates appear to apply also to Polish residents' purchases of foreign currencies for travel purposes. Following this development, the rate of exchange between the zloty and the rouble was changed on 1st May 1957 from par to Zl. 1.50 = Roubles 1 in respect of non-commercial transactions between the two countries.

On 5th April 1957 it was announced that the multiple rates hitherto in force in Spain for commercial and non-commercial foreign exchange operations were to be replaced by a single rate applicable to all exchange operations. Under the previous system there were the official basic exchange rates of Pts 10.95-11.22 = U.S.\$1, which applied only to government transactions; five export rates ranging from Pts 23.61 to Pts 37.24 = U.S.\$1, which resulted from different "mixtures" of a so-called "basic" export rate of Pts 21.90 = U.S.\$1 and of a "controlled" free rate (which had been unchanged since September 1953) of Pts 38.95 = U.S.\$1; and eight import rates, ranging from Pts 16.425 = U.S.\$1 to the "controlled" free rate. The latter rate also applied to all non-commercial transactions.

The new single buying and selling rates are Pts 42.00-42.27 = U.S.\$1, and the equivalents in the other currencies quoted on the Spanish exchange market, namely sterling, French francs, Moroccan francs, free Swiss francs, escudos, Deutsche Mark, Swedish kronor and Danish kroner. They thus place a lower external value on the peseta than any of the rates previously in force. The principal import rate under the previous system was the "controlled" free rate, so that for many imports and for non-trade transactions the devaluation of the peseta amounts to a little under 8 per cent.; by comparison with the previous principal export rate of Pts 30.42 (50 per cent. at the "basic" export rate and 50 per cent. at the "controlled" free rate) it is about 28 per cent. In May 1957 premiums were introduced for certain exports, and also retention quotas.

Early in February 1957 the free rate for Spanish bank-notes had fallen as low as Pts 55.85 = U.S.\$1, compared with Pts 46.30 at the end of September 1956; by the beginning of May 1957 the rate had improved somewhat to Pts 51.15 = U.S.\$1, at which level, however, it was still more than 20 per cent. higher than the new rate.

In Latin America the trend towards simplification of exchange rate structures and away from unrealistically fixed exchange rates continues. Following the example of Chile in April 1956, Bolivia abolished its multiple exchange-rate system in December 1956. It had been based on a par value of Bs. 190 = U.S.\$1, but the effective rates had ranged from the par value, which applied to many imports, to the free-market rate, which, just prior to the exchange reform, stood at about Bs. 13,000 = U.S.\$1. A single fluctuating rate, fixed daily by the central bank, was introduced and quotations started at Bs. 7,700-7,750 = U.S.\$1. In addition, all import restrictions were removed. At the same time an Exchange Stabilisation Fund of U.S.\$25 million was obtained from outside, U.S.\$10 million being provided by the U.S. International Cooperation Administration and U.S.\$7.5 million each by the International Monetary Fund and the U.S. Treasury.

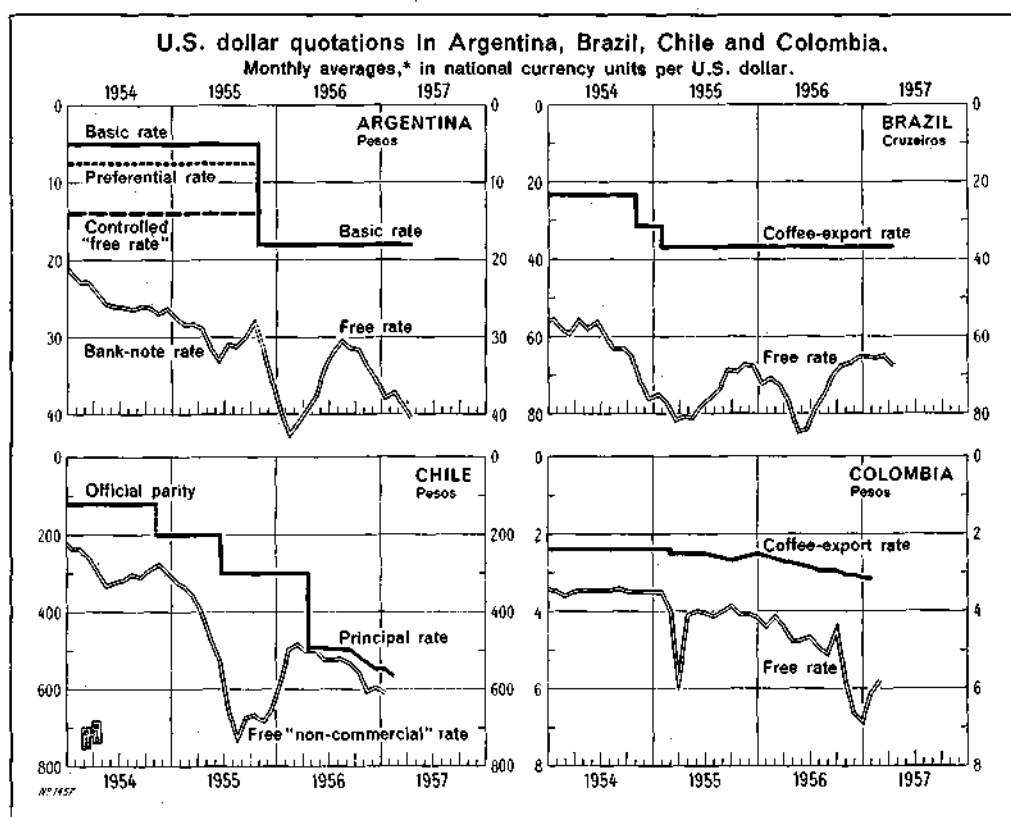
In Chile there have been no further changes in the exchange rate system since the introduction in April 1956 of a single fluctuating rate, which applies to all imports and exports and to some capital transactions. Inflation was less acute in 1956 than it had been the year before, the cost-of-living index having risen by nearly 38 per cent., compared with almost 84 per cent. in 1955. The central bank's basic selling rate has depreciated more than 10 per cent. since October 1956, and in mid-April 1957 it stood at Pesos 580 = U.S.\$1, compared with Pesos 490 = U.S.\$1 in April 1956. The range of rates for prior deposits on imports, which since April 1956 had extended from 5 to 200 per cent., was further widened in March 1957; the maximum since then has been 600 per cent. of the value of the goods in question, and the rates applicable to most imports were substantially increased.

In September 1956 the Argentine became a member of the International Monetary Fund and of the International Bank for Reconstruction

and Development. During the same month the country negotiated with the Export-Import Bank of Washington a loan of \$100 million, to be used for purchasing industrial equipment.

In January 1957 the principal exchange rate of Pesos 18 = U.S.\$1, established in October 1955, was declared to the International Monetary Fund as the par value of the currency. This rate is equivalent to a gold content of 0.049 370 6 grammes per peso. The exchange rate system did not change during the period under review. However, quantitative import restrictions were abolished for certain commodities, for which definite import prices, called *aforos*, are now fixed; at these prices, which are roughly 10 per cent. below those ruling in world markets, unlimited foreign exchange to purchase these commodities is made available at the official rate, but any extra currency required has to be bought, much more expensively, on the free market.

Free-market quotations for the peso fluctuated considerably during the period under review. Early in 1956 the fall in the value of the peso which had been going on since the exchange reform of October 1955 came to an end; from Pesos 42.5 = U.S.\$1 in February rates appreciated steadily until the beginning of August, when they stood at Pesos 28.3 = U.S.\$1. There was a slight weakening after that, followed in November and December by



a sharper decline, which raised quotations to about Pesos 37.5 = U.S.\$1 by the end of the year; since then there has been a further fall in the free-market value of the currency to Pesos 40.70 = U.S.\$1 in mid-April 1957.

In Brazil the exchange rate system remains the same as before, except in one respect. At the weekly auctions of foreign exchange for imports, the minimum premiums payable, in addition to the official selling rate, for the five different import categories are now fixed afresh every week. The rule is that minimum premiums for all currencies are based on 80 per cent. of a weighted average of the premiums actually paid at the previous week's auctions for U.S. dollars and Hague Club currencies. These currencies had been commanding much higher premiums in all categories than bilateral clearing currencies, with the result that imports paid for with the latter were relatively much cheaper. At the first auction to which the new system was applied, in February 1957, the minimum premiums were fixed at Cruz. 29, 47, 73, 107 and 231 per U.S. dollar for the five different categories, compared with Cruz. 25, 30, 35, 40 and 100 previously.

Colombia experienced considerable difficulties in its external payments during the past year; these arose out of the backlog of commercial payments resulting from the import spree which followed the coffee boom of 1954. The principal exchange rates have not changed, but the free-market value of the currency has declined considerably during the period under review, from a level of about Pesos 4.75 = U.S.\$1 in May 1956 to about Pesos 7.15 = U.S.\$1 in mid-April 1957. The free exchange market, which was used for most non-trade transactions, less essential imports and some minor exports, was turned into a certificate market in December 1956. All foreign exchange previously negotiable on the free market has since then had to be surrendered to the authorities in exchange for negotiable certificates which can be used for making those payments that previously went over the free market. The rates quoted on the market for exchange certificates had risen by mid-April 1957 to about Pesos 7 = U.S.\$1. The present position therefore is that there are, as before, two export exchange rates: the official parity of Pesos 2.50 = U.S.\$1, which applies to exports of coffee (but any proceeds in excess of U.S.\$105 per 70-kilogramme sack may be sold on the free market), raw hides, petroleum and platinum, and the certificate — formerly the free-market — rate, which applies to all other exports and to certain non-trade transactions.

Permitted imports were reclassified at the end of 1956 into four categories. Foreign exchange for the import of goods listed in the first two of these groups (essential raw materials, fuels and certain machinery) was made available at the official selling rate of Pesos 2.51 = U.S.\$1; the certificate rate applied to other permitted imports. Stamp taxes, ranging from 10 to 90 per cent. of the f.o.b. value of the goods and calculated at the official buying rate of Pesos 2.50 = U.S.\$1, were included in the price of foreign exchange. Towards the end of May 1957 it was announced that the official selling rate would no longer be applied to any imports.

In Uruguay the multiple exchange rate system was changed in August 1956, but not simplified. The number of export exchange rates was increased from nine to eleven. These range from Pesos 1.519 = U.S.\$1, which remains the "basic" rate, to Pesos 4.10 = U.S.\$1, which is the rate fixed by the central bank for the exchange certificates which were introduced at that time. The rates in between represent mixings of those two rates. The principal export rate, that for greasy wool (85 per cent. at the "basic" rate and 15 per cent. at the certificate rate), is Pesos 1.906 = U.S.\$1. Previously the rate for these exports was Pesos 1.71 = U.S.\$1. On the import side, the principal rate remains Pesos 2.10 = U.S.\$1; it applies to such things as raw materials, fuels, building materials and essential foods. There are four other import rates, ranging from Pesos 3 to Pesos 6.10 = U.S.\$1. The free rate continues to apply to non-trade transactions. It has appreciated over recent months and in the first week of April stood at about Pesos 3.84 = U.S.\$1, compared with Pesos 4.18 = U.S.\$1 in August 1956.

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Elsewhere in the world there were changes in exchange rates in Indonesia and Iran.

During 1956 Indonesia's external position deteriorated considerably. In the first six months of the year there was a foreign trade deficit of Rupiahs 1,409 million; in the corresponding period of 1955 there had been a surplus of Rupiahs 565 million. In August 1956 the government repudiated all the debts, totalling some Fl. 650 million, owing to the Netherlands. In the same month \$55 million was drawn from the International Monetary Fund, as the reserves had fallen very low, and in October a credit of \$100 million to be used for industrial equipment was secured from the U.S.S.R.

Following the downward adjustment in 1955 of the import rates of exchange, changes were made in both import and export rates during 1956. In August bonuses, payable in foreign exchange, were introduced for all exports except petroleum and its products, tin and sugar. Previously there had been a single export exchange rate of Rupiahs 11.36 = U.S.\$1. The new bonuses range from 2 to 5 per cent. for various kinds of rubber and amount to 20 per cent. for other goods; they are given in the form of negotiable certificates, expressed in rupiahs, which entitle the holder to an equivalent amount of foreign exchange at the rate mentioned above (and the equivalent rate for other currencies). This foreign exchange may be used for the import of goods classified as non-essential.

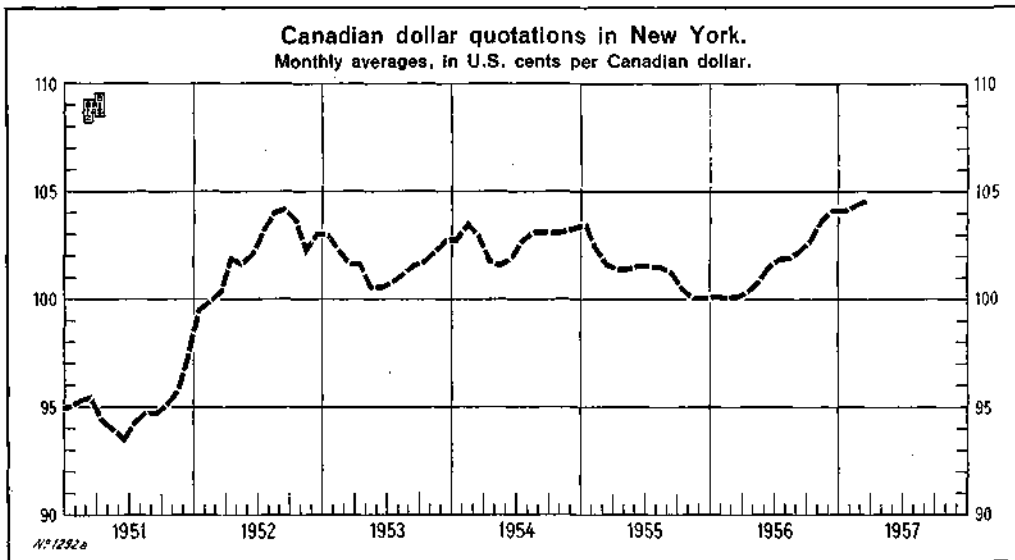
On 1st September imports were reclassified into nine groups, whereas previously there had been only four. The range of import rates was not, however, changed, the maximum rate still being Rupiahs 57.38 = U.S.\$1, which is five times the basic selling rate. In addition, however, a special new category of non-essential imports, which can only be paid for by using

the exchange certificates mentioned above, was created. The rate applied to these imports varies with the price of the certificates — at present they sell for roughly twice their face value in rupiahs — to which must be added a surcharge of 300 per cent. of the basic selling rate of Rupiahs 11.48 = U.S.\$1. By the beginning of May 1957 the country's external reserves had fallen so low that a complete import stop was imposed.

In Iran the exchange rate structure has been further simplified. The old par value of Rials 32.25 = U.S.\$1, which for some time had been of very little significance, was abolished in May 1957 and a new one of Rials 75.75 = U.S.\$1 substituted. The new parity is the middle rate between the official buying and selling rates of Rials 75.00-76.50 = U.S.\$1, which have since March 1956 been the effective rates for virtually all transactions.

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The Canadian dollar, which, during the last quarter of 1955 and the early months of 1956, was quoted occasionally at and mostly very close to par with the U.S. dollar, rose again in value from the second quarter of the year onwards and by December 1956 was at a premium of about 4 per cent. This upward movement, which was in contrast to what happened the year before, was accompanied by a substantial further deterioration in the current account of the balance of payments. The deficit, which had been Can.\$692 million in 1955, rose to Can.\$1,398 million in 1956.



The increased deficit was associated with a larger net capital inflow, which amounted to Can.\$1,431 million, an increase of Can.\$783 million over the corresponding figure for 1955. Direct investment in Canada amounted to Can.\$525 million, an increase of Can.\$115 million on 1955. Trade in Canadian securities produced a net inflow of no less than Can.\$749 million,

whereas there had been a small net outflow, of Can.\$35 million, during the year 1955. This remarkable change was accounted for by an increase of Can.\$225 million in foreigners' purchases of already existing Canadian securities and one of Can.\$515 million in new issues abroad, while repayments of previous foreign borrowings were Can.\$44 million less than in 1955. The principal cause of these changes was the rise in Canadian interest rates relative to those in the United States which took place during the last months of 1955 and the maintenance of this differential — which amounted to about $\frac{1}{2}$ per cent. on government bonds with a last maturity date of 1968 — during 1956. At the same time, Canadian dollar holdings of foreigners and the item "other capital movements", which is mostly made up of short-term transactions, produced an inflow of Can.\$174 million in 1956, compared with one of Can.\$286 million in 1955. Thus the much larger deficit was financed to a greater extent by long-term capital than had been the case the year before.

Early in 1957 the premium on the American dollar did not, as might have been expected on seasonal grounds, diminish, and towards the end of March it stood at over $4\frac{1}{2}$ per cent.; in April there was a slight weakening, but the premium remained above 4 per cent.

* * *

The question when and in what manner some or all of the European currencies could be made fully convertible had in previous years given rise to very lively official and unofficial discussions. Last year, however, the problem seems to have attracted little interest. It was no longer the theme of frequent and lengthy newspaper articles; it ceased to be a subject of scholarly papers and played little part in inter-governmental discussions. Whatever the reasons for this lack of interest, full convertibility of currencies remains, as much as it ever was, a goal to be striven for.

The preceding pages have shown that in western Europe the step-by-step approach towards convertibility was, in a number of countries, maintained last year. In broad terms the present state of affairs can be summarised as follows: so far as non-resident holders are concerned, current-account balances in a number of European currencies — except for such balances as are only usable bilaterally — can always be converted into other European currencies; in addition, it is often possible to effect conversion of these balances, either directly or indirectly, into dollars on the free exchange markets — usually at a discount of no more than 1 to 2 per cent. on the parity rates. Thus the lack of non-resident convertibility is not so much a matter of not being able to convert into dollars but rather that such conversion is still slightly more expensive than conversion at official rates of exchange, which, however, is only available to dollar-area residents. To put it another way, the extent to which the official and the free-market rates for the pound sterling and the Deutsche Mark, the two currencies through which transfers into dollars chiefly take place, are still not fully unified is a measure of the extent to

which non-resident convertibility has yet to be achieved. Full convertibility for non-resident holders of European currencies will be a fact on the day when these differences between rates disappear. Non-resident holdings of capital-account balances in European currencies can in most cases only be repatriated at a discount via the free exchange markets by means of sales by one non-resident to another. In the case of Germany and Belgium, however, such balances can, except for those held by dollar-area residents, be repatriated directly by their owners at official rates of exchange.

Another symptom of the lack of full convertibility is connected with the E.P.U. At the monthly settlements, countries with a surplus can convert only 75 per cent. of their new claims into gold or dollars. On the other hand, as already mentioned, individual holders of European currencies can often find ways of converting them into dollars at a very slight discount.

As far as convertibility into dollars for residents is concerned, this exists fully in Switzerland and, for nearly all practical purposes, also in Germany and Belgium. The two latter countries today supervise rather than control the foreign exchange transactions of their residents. In other European countries the restrictions still placed on such transactions vary a good deal but in most of them the tendency is unmistakably towards a steady and gradual relaxation of controls.

Currency convertibility in the sense of transferability of a currency into all others should never be considered in isolation from the liberalisation of imports. This is not to say that it does not serve any useful purpose unless it is combined with the abolition of quantitative import controls. Even if such controls are in existence, currency convertibility at least permits traders to buy in the cheapest market those commodities which may be imported. Nevertheless the full benefits of convertibility can only be realised if import controls are abolished, so that every importer can buy any amount of goods and services anywhere in the world.

The process of liberalising imports into western Europe has been going on for a number of years now. It is an encouraging fact that those countries which ran into balance-of-payments difficulties in 1956 have, in taking measures to improve their positions, clearly tended to respect the international agreements into which they have entered and to avoid returning to direct controls over external transactions. Among the countries of western Europe themselves, the movement of goods has been freed from quantitative restrictions to the extent of 90 per cent. or so; moreover, some European countries have also achieved this degree of liberalisation of their imports from the dollar area, and the average degree of dollar liberalisation for the member countries of O.E.E.C. as a group is 61 per cent. Furthermore, liberalisation of invisible transactions has to a considerable extent necessarily gone hand in hand with greater freedom of trade.

All this represents a substantial achievement. But the progress made is far from having been consolidated. Economic policy is all of a piece.

External policy cannot be separated from domestic policy; and so long as the conduct of the latter continues to produce, as it still does in some countries, external disequilibrium or at best a precarious equilibrium, doubts will continue to be felt about the basis on which the present degree of freedom in international trade and payments rests. If, therefore, countries are successfully to stand on their own feet in the greatly freer conditions for international trade and payments which they have themselves created, they must constantly be on guard against the development of distortions in their domestic economies which will inevitably, in an open economy, be reflected sooner or later in their external position and which may threaten to undermine the progress made since the war towards re-establishing the maximum degree of freedom in international trade and payments.

Official currency values - Middle of May 1957.¹

Countries	Currency	Grammes of fine gold	1 U.S.	1 pound	Remarks
			dollar	sterling	
			equals		
Europe					
Albania	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria	Sch.	.0341796	26.— ²	72.80	IMF parity since 4th May 1953.
Belgium	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130697	6.60	19.04	Rates fixed since 12th May 1952.
Czechoslovakia	Koruna	.123426	7.20	20.16	Rates fixed on 1st June 1953.
Denmark	Krone	.128660	6.90714 ²	19.34	IMF parity since 18th Sept. 1949.
Finland	Markka	.00386379	230.—	644.—	IMF parity since 1st July 1951.
France	Franc	—	350.— ²	980.—	No IMF parity fixed.
Germany (eastern)	D.Mark	.399902	2.222	6.22	Rates fixed on 29th October 1953.
Germany (Fed. Rep.)	D.Mark	.211588	4.20 ²	11.76	IMF parity since 30th Jan. 1953.
Greece	Drachma	—	30.— ²	84.—	Official rates since 1st May 1954.
Hungary	Forint	.0757002	11.74	32.87	Official rates since 1st Aug. 1946.
Iceland	Króna	.0545676	16.2857 ²	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.—	Rate fixed on 18th Sept. 1949.
Italy	Lira	—	624.855	1,758.38	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Netherlands	Guilder	.233851	3.60 ²	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286 ²	20.—	IMF parity since 18th Sept. 1949.
Poland	Zioly	.222168	4.—	11.20	Rates fixed on 28th Oct. 1950.
Portugal	Escudo	—	28.75 ²	80.50	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.148112	6.—	16.80	Rates fixed on 1st February 1954.
Spain	Peseta	—	42.—	117.60	Buying rate since 12th April 1957.
Sweden	Krona	.171783	5.17321 ²	14.485	IMF parity since 5th Nov. 1951.
Switzerland	Franc	.203226	4.37282 ²	12.2439	Official parities.
Turkey	Lira	.317382	2.80 ²	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143 ²	1.—	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00296224	300.—	840.—	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.—	11.20	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	3	3	3	No IMF parity fixed.
Mexico	Peso	.0710937	12.50	35.—	IMF parity since 19th April 1954.
United States	Dollar	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Central America					
Costa Rica	Colón	.158267	5.615	15.722	IMF parity since 18th Dec. 1946.
Cuba	Peso	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Dominican Republic	Peso	.888671	1.—	2.80	IMF parity since 23rd Apr. 1948.
El Salvador	Colón	.355468	2.50	7.—	IMF parity since 18th Dec. 1946.
Guatemala	Quetzal	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
Haiti	Gourde	.177734	5.—	14.—	IMF parity since 9th Apr. 1954.

¹ The International Monetary Fund gives only parities in grammes of fine gold and in U.S. dollars. The rates in £ sterling were generally calculated via the official parity of \$2.80 for £1.

² Rate used in EPU operations. For countries which have an IMF parity the rates used in EPU operations conform with that parity (except Iceland \$1 = 1. Kr. 16.29).

³ Market rates in the middle of May 1957 were U.S.\$1 = Can.\$ 0.935 and £1 = Can.\$ 2.8748.

Official currency values - Middle of May 1957 (continued).

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Central America (continued)					
Honduras	Lempira	.444335	2.—	5.60	IMF parity since 18th Dec. 1946.
Nicaragua	Córdoba	.126953	7.—	19.60	IMF parity since 1st July 1955.
Panama	Balboa	.888671	1.—	2.80	IMF parity since 18th Dec. 1946.
South America					
Argentina	Peso	.0493706	18.—	50.40	IMF parity since 9th Jan. 1957.
Bolivia	Boliviano	.00467722	190.—	532.—	IMF parity since 14th May 1953.
Brazil	Cruzetro	.0480363	18.50	51.80	IMF parity since 14th July 1948.
Chile	Peso	.00807883	110.—	308.—	IMF parity since 2nd Oct. 1953.
Colombia	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador	Sucra	.0592447	15.—	42.—	IMF parity since 1st Dec. 1950.
Paraguay	Guarani	.0148112	60.—	168.—	IMF parity since 1st March 1956.
Uruguay	Peso	—	1.519-2.10	4.25-5.88	Official basic buying and selling rates since 15th Sept. 1955.
Venezuela	Bolivar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Belgian Congo	Franc	.0177734	50.—	140.—	IMF parity since 22nd Sept. 1949.
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Liberia	Dollar	.888671	1.—	2.80	Parity with the U.S. dollar since 1st January 1944.
Union of South Africa	Pound	2.48828	.357143	1.—	IMF parity since 18th Sept. 1949.
Asia					
Burma	Kyat	.186621	4.7619	13½	IMF parity since 7th August 1953.
Ceylon	Rupee	.186621	4.7619	13½	IMF parity since 16th January 1952.
China	Yen Min Piao	—	2.46	6.893	Official rate since 1st March 1955.
India ¹	Rupee	.186621	4.7619	13½	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	11.36-11.48	31.81-32.14	Official buying and selling rates since 9th November 1954.
Iran	Rial	.01173172	75.75	212.10	Official parity since 18th May 1957.
Iraq	Dinar	2.48828	.357143	1.—	IMF parity since 20th Sept. 1949.
Israel	Pound	.493706	1.80	5.04	IMF parity since 13th March 1957.
Japan	Yen	.00246853	360.—	1,008.—	IMF parity since 11th May 1953.
Jordan	Dinar	2.48828	.357143	1.—	IMF parity since 2nd Oct. 1953.
Korea	Hwan	—	500.—	1,400.—	Official rate since 15th Aug. 1955.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Pakistan	Rupee	.186621	4.7619	13½	IMF parity since 31st July 1955.
Philippines	Peso	.444335	2.—	5.60	IMF parity since 18th Dec. 1946.
Syria	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Thailand	Baht	.0444335	20.—	56.—	Official rate since 18th March 1955.
Australasia					
Australia	Pound	1.99062	.446429	1.25	IMF parity since 18th Sept. 1949.
New Zealand	Pound	2.48828	.357143	1.—	Official parity since 18th Sept. 1949.

¹ Includes Portuguese possessions in India.

VIII. European Payments Union.

Previous Annual Reports have reviewed the development and practical working of the European Payments Union from its inception up to March 1956; the narrative is continued in the present chapter, which deals with the prolongation of the Union after June 1956, the operations up to March 1957 and the financial position of the Union in the spring of this year.

1. Prolongation of the Union after June 1956.

By a Decision of the Council of the Organisation for European Economic Co-operation, taken on 29th June 1956, the life of the Union was extended for a further year from 1st July 1956. The provisions whereby the Union may be terminated on condition that the European Monetary Agreement then comes into force were maintained.

The mechanism of the Union remained unchanged; a number of additional bilateral repayment and amortisation agreements were concluded, some new credit facilities were opened and a voluntary repayment of credit was made by one of the debtor countries, but generally the Union continued to function in the same manner as in the previous year; settlements were made as before on the basis of 75 per cent. gold and 25 per cent. credit.

E.P.U.: Amounts subject to bilateral agreements
concluded on the renewal of the Union, July 1956.

Member countries	Creditors				Totals
	Belgium	Germany	Netherlands	Switzerland	
in millions of units of account					
Debtors					
Denmark	—	—	—	3	3
Italy	15	35	30	10	90
Norway	7	38	13	—	58
United Kingdom	20	—	20	20	60
Totals . . .	42	73	63	33	211

Note: In addition to those shown in the table, a further agreement between Denmark and Germany, covering \$15 million, was negotiated in January 1957.

Bilateral repayment and amortisation agreements, additional to those previously concluded, were negotiated between four debtor countries and four creditors; eleven new agreements came into force with effect from 1st July 1956 and cover the bilateral repayment of claims and debts amounting to \$211 million.* These agreements are basically the same as those concluded in 1954; in each relationship provision is made for an immediate cash

* For convenience, the dollar sign (\$) is used throughout the text in this chapter, whether the amount referred to is in U.S. dollars (or gold) or, as in this case, in E.P.U. units of account.

payment and for the balance to be amortised over a period of years. Whereas, however, the previous agreements provided for an initial repayment of at least twenty-five per cent., the percentage varies from ten to twenty-five in the new agreements. Similarly, whilst it was originally agreed that the instalment payments should be spread over an average of seven years, the period of amortisation under the latest agreements has, with one exception, been reduced to six years or less; in the relationship Italy-Switzerland the agreed amount is being amortised over a period of ten years. Payment of the amortisation instalments under the new agreements concluded by Italy takes place quarterly, while under those of Denmark, Norway and the United Kingdom the instalments are being paid monthly.

A voluntary repayment of \$12 million of its debt to the Union was made by Italy in July 1956 in connection with the renewal of the Union; at the same time the Union repaid in gold a like amount of credit granted to it by the creditors. This sum was distributed to the creditors in proportion to the amount of their total credits; thus, Belgium was repaid \$2.2 million, Germany \$7 million, the Netherlands \$1.8 million and Switzerland \$1 million. As the \$12 million was paid out on the day it was received (13th July 1956), the liquid resources of the Union were not affected by the operation.

E.P.U.: Cash payments and receipts on renewal of the Union, July 1956.

Debtor countries	Debtors' payments	Creditor countries	Creditors' receipts		
			from debtors	from Union	Totals
	in millions of dollars				
Denmark	0*	Belgium	6	2	9
Italy	32	Germany	16	7	23
Norway	13	Netherlands	13	2	15
United Kingdom	7	Switzerland	4	1	5
Totals	52	Totals	40	12	52

* \$375,000.

The initial repayments and amortisation instalments paid under the new bilateral agreements in July 1956, the payment by Italy and the distribution in cash by the Union, all representing repayment of credit previously granted, are summarised in the table.

The "rallonges" (facilities for the settlement of surpluses and deficits beyond the quotas) of debtor countries, determined at the renewal of the Union in July 1955, remained unaltered; for the creditors, however, it was necessary to establish new rallonges. Only Germany had granted credit in excess of its quota at the end of June 1956 and the amount of \$374 million was established to cover the excess credit of \$298 million already granted and also any new credit to be extended up to June 1957.

E.P.U.: Creditors' rallonges.

Member countries	Old rallonge	New rallonge	Of which credit element
	in millions of units of account		
Belgium	—	100	25
Germany	1,300	1,496*	374*
Switzerland . .	250	250	62.5

* Later replaced by a rallonge to cover all surpluses up to the end of June 1957.

The rallonge established in August 1955 for Switzerland was unused in June 1956 and was retained unchanged, the credit element amounting to \$62.5 million; as it seemed possible that Belgium might exceed its quota in the year to June 1957, a new rallonge was established totalling, in terms of credit, \$25 million.

In July 1955 the Union agreed to grant to Italy a special credit of \$50 million, available until 30th June 1957 or the termination of the Union, whichever was earlier; on the renewal of the Union in June 1956, the availability of the credit was extended to 30th June 1958. No drawings have been made on this credit.

Above the quotas and rallonges, debtors have to pay, as in previous years, one hundred per cent. in gold.

The special settlement arrangement under which France can recover gold paid to the Union to cover deficits above its quota up to July 1954 remains in force; by March 1957, \$173 million of the total of \$369 million had been recovered under this arrangement. By the end of 1956, Greece had recovered, under a similar arrangement, all of the \$46 million which had been paid in gold in settlement of deficits outside the quota up to July 1955.

2. The operations up to March 1957.

The following paragraphs give the main facts concerning the compensations, the settlement mechanism and the current affairs of the Union.

A. THE COMPENSATIONS.

During the eighty-one months' life of the Union up to March 1957, the gross bilateral surpluses (equal, of course, to the gross bilateral deficits) totalled the equivalent of \$17.9 milliard in the national currencies of member countries; of this amount \$13.3 milliard, i.e. 74 per cent., had been compensated in the operations of the Union, leaving \$4.6 milliard, being the cumulative net surpluses (and deficits), to be dealt with by the settlement mechanism of the Union.

A marked increase in the gross bilateral surpluses (and deficits) was noticeable in 1956 and culminated in a total of \$272 million in November, the highest since June 1952; since then there has been some decline but they generally continue at a high level.

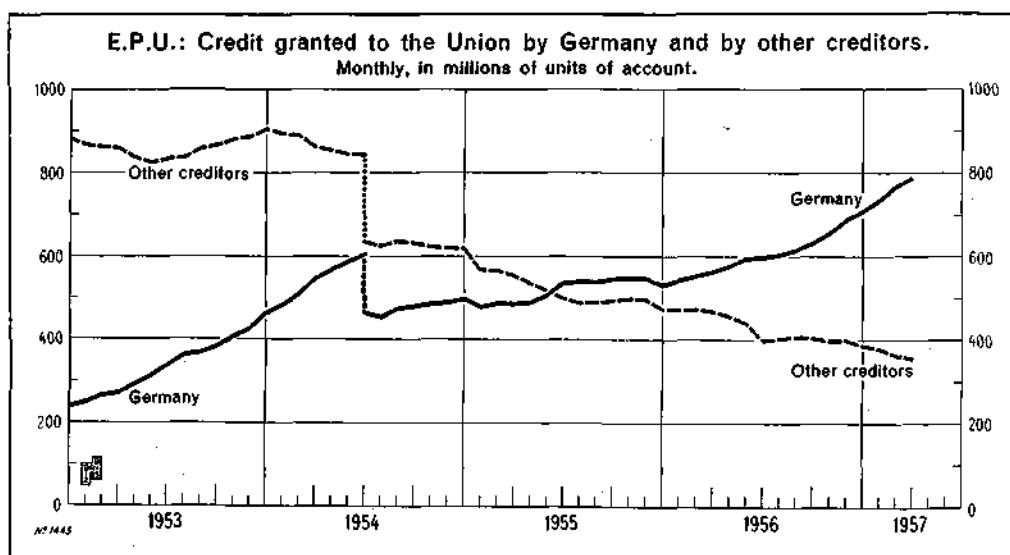
E.P.U.: Compensation mechanism — January 1956 to March 1957.*

Month	Gross bilateral surpluses (and deficits)	Compensations			Net surpluses (and deficits) excluding interest
		Bilateral offsetting	Cumulative working	Total compensations	
in millions of units of account					
Totals to December 1955 . . .	14,842	6,782	4,874	11,656	3,186
1956 January . . .	157	51	24	75	82
February . . .	124	61	4	64	60
March . . .	145	56	25	82	63
April . . .	184	65	91	156	29
May . . .	180	61	61	142	38
June . . .	202	54	43	97	105
July . . .	251	78	43	121	130
August . . .	198	68	24	92	106
September . . .	220	93	22	116	104
October . . .	199	64	26	91	109
November . . .	272	87	19	106	166
December . . .	191	73	45	118	73
1957 January . . .	249	80	71	151	98
February . . .	217	57	56	112	104
March . . .	263	112	40	152	111
Totals to March 1957	17,893	7,842	5,487	13,328	4,564

* Earlier figures are given in the Twenty-sixth and previous Annual Reports, which contain detailed footnotes to this and other tables.

B. THE SETTLEMENT MECHANISM.

As mentioned earlier in this chapter, all settlements within the quotas and all rallonges continue on a 75:25 gold and credit basis, debtors in excess of both quota and rallonge settling one hundred per cent. in gold as before. The tables on the following page illustrate the operation of the settlement mechanism over the past fifteen months.



**E.P.U.: Settlement mechanism — cumulative surpluses and deficits,
January 1956 to March 1957.**

CREDITORS — cumulative surpluses.

Month	Cumulative net surpluses (including interest)	Net reduction (-) or increase (+) due to		Cumulative accounting surpluses	Settlement of cumulative accounting surpluses		
		Ante-quota settlements and adjustments	General adjustments		Credit within and outside quotas	Actual payments	Gold Adjustments
in millions of units of account							
1956							
January . . .	3,372	- 233	+ 832	3,970	993	1,749	+ 1,229
February . . .	3,431	- 234	+ 809	4,006	1,002	1,793	+ 1,212
March . . .	3,495	- 235	+ 775	4,034	1,009	1,840	+ 1,186
April . . .	3,523	- 236	+ 753	4,041	1,010	1,861	+ 1,170
May . . .	3,561	- 237	+ 733	4,059	1,014	1,898	+ 1,155
June . . .	3,691	- 225	+ 490	3,946	986	1,999	+ 960
July . . .	3,610	- 210	+ 373	3,973	993	2,107	+ 873
August . . .	3,917	- 201	+ 330	4,046	1,011	2,194	+ 841
September	4,021	- 200	+ 277	4,098	1,024	2,272	+ 801
October . .	4,129	- 207	+ 249	4,171	1,043	2,349	+ 780
November .	4,295	- 211	+ 221	4,305	1,076	2,471	+ 759
December .	4,383	- 212	+ 166	4,337	1,084	2,535	+ 718
1957							
January . .	4,481	- 201	+ 127	4,407	1,102	2,617	+ 689
February . .	4,595	- 211	+ 98	4,473	1,118	2,698	+ 667
March . . .	4,696	- 212	+ 45	4,529	1,132	2,770	+ 627

DEBTORS — cumulative deficits.

Month	Cumulative net deficits (including interest)	Net reduction (-) or increase (+) due to			Cumulative accounting deficits	Settlement of cumulative accounting deficits				
		Ante-quota settlements and adjustments	General adjustments	Gold recoverable from Union under Art. 10 bis		Credit within and outside quotas	Actual payments on proportionate basis	Gold 100 per cent. payments	Adjustments	
in millions of units of account										
1956										
January . . .	3,369	- 429	+ 1,058	- 200	3,798	859	1,232	251	+ 1,455	
February . . .	3,429	- 430	+ 1,036	- 203	3,831	863	1,267	262	+ 1,439	
March . . .	3,492	- 431	+ 1,001	- 202	3,860	859	1,315	274	+ 1,413	
April . . .	3,521	- 431	+ 980	- 204	3,865	849	1,333	286	+ 1,397	
May . . .	3,559	- 433	+ 960	- 205	3,881	843	1,357	300	+ 1,381	
June . . .	3,677	- 431	+ 716	- 206	3,757	797	1,455	318	+ 1,187	
July . . .	3,807	- 416	+ 599	- 209	3,781	801	1,558	322	+ 1,099	
August . . .	3,913	- 407	+ 557	- 212	3,851	820	1,647	318	+ 1,067	
September	4,017	- 406	+ 504	- 213	3,902	847	1,721	306	+ 1,028	
October . .	4,126	- 413	+ 475	- 210	3,979	862	1,801	290	+ 1,006	
November .	4,292	- 417	+ 447	- 208	4,117	932	1,927	273	+ 985	
December .	4,379	- 418	+ 393	- 196	4,157	943	1,997	273	+ 944	
1957										
January . .	4,477	- 407	+ 354	- 196	4,227	973	2,074	265	+ 915	
February . .	4,581	- 417	+ 325	- 198	4,293	987	2,141	272	+ 893	
March . . .	4,692	- 418	+ 271	- 196	4,349	998	2,218	280	+ 853	

E.P.U.: Credit movement, June 1954 to March 1957.

Credit granted and received	Cumulative creditors	Cumulative debtors
	in millions of units of account	
Outstanding June 1954		
Within quotas	1,034	1,142
Outside quotas	382	—
Total credit	1,416	1,142
Repayments		
Initial repayments	271	271
Monthly amortisations	319	319
By Union	130	—
By France and Italy	142	142
Total repayments	862	732
New credit granted and received (net)	578	587
Outstanding March 1957		
Within quotas	644	954
Outside quotas	488	44
Total credit	1,132	998

The relative stability of total credit outstanding, which had existed since July 1954, continued in the first half of 1956; the special repayment of \$12 million by Italy and, in particular, payments under bilateral amortisation agreements not only assisted in keeping the total volume of credit from expanding but also, at the end of this period, produced something of a contraction. Thereafter, however, the settlement mechanism came under pressure and some expansion of credit has occurred.

In June 1954 four creditors (Austria, Belgium, Germany and Switzerland) were outside their quotas and 27 per cent. of the total credit granted to the Union was by way of ralonge; at the end of March 1957, Germany was the only creditor beyond its quota, the other three creditor positions having declined, but the ralonge percentage had risen sharply over the previous twelve months to 43 per cent. This was due to the large amount of new credit granted by Germany (\$227 million), all of which was outside the quota.

By November 1956, Germany had almost exhausted the ralonge established at the renewal of the Union in July 1956 and it was, therefore, agreed that this should be replaced by a further ralonge, unlimited as to amount, for the settlement of surpluses and deficits beyond Germany's quota for the period to 30th June 1957; this new "open-end" ralonge was approved by the Council of the O.E.E.C. on 16th November 1956.

C. CURRENT AFFAIRS OF THE UNION.

During the Union's seventh year, Dr von Mangoldt has continued in the capacity of Chairman of the Managing Board, which held its eighty-second session in March 1957.

The Board has met, as in previous years, approximately once a month and its routine business has included, in addition to studies of the economic position of member countries, the examination and approbation of the Agent's

E.P.U.: Interest rates on credit granted to and by the Union.

Financial years of the Union (July to June)	Interest payable by debtors to Union				Interest payable to creditors by Union	
	within quotas and rallonges			special arrange- ments outside quotas	within quotas	outside quotas *
	months outstanding					
	1-12	13-24	over 24	percentages		
First year (1950-51) . . .	2	2½	2½	2½	2	2
Second year (1951-52) . . .	2½	2½	2½	2½	2	2
Third year (1952-53) . . .	2½	2½	3	2½	2½	2½
Fourth year (1953-54) . . .	2½	3	3½	—	2½	3
Fifth year (1954-55) . . .	2½	3	3½	—	2½	3
Sixth year (1955-56) . . .	2½	3	3½	3½	2½	3
Seventh year (1956-57) . . .	2½	3	3½	3½	2½	3

* In addition to the rates given above relating to creditors, 2½ per cent. is paid by the Union on the B.L.E.U. special credit.

Reports on the operations, which are then forwarded to the Council of the O.E.E.C. for final approval. The Board is responsible for the management and investment of the Union's liquid resources and periodically reviews the rates of interest payable on credits granted to and by the Union; these rates have remained unchanged since July 1954.

The gold and dollar holdings of the Union fluctuated to some extent during 1956. The first half of the year saw quite a marked recovery in the Union's holdings, mainly because France and Portugal, in preference to being granted credit, made one hundred per cent. gold payments to the

E.P.U.: Gold and dollar holdings.

After value date for operations	U.S. Treasury account	Gold	U.S. dollars	Total
	in millions of U.S. dollars			
Opening (July 1950)	350	—	—	350
1950 December	307	—	97	404
1951 June	286	—	66	352
October ¹	141	36	2	179
December	112	100	5	217
1952 June (adjusted)	123	150	78	351
December	123	153	97	373
1953 June	124	153	160	436
December	124	153	198	475
1954 June ²	124	153	267	544
June (adjusted)	124	153	137	414
December	124	153	146	423
1955 June	124	153	123	399
December	124	248	4	376
1956 March	124	232	53	409
June	124	291	24	438
September	124	239	64	426
December	124	264	2	390
1957 March	124	201	58	383

¹ Lowest point reached. ² Highest point reached.

Union during this period in respect of net deficits; the deficits of Greece and Turkey were also settled fully in gold. However, in the second half of 1956 there was a reversal of this tendency, due chiefly to the withdrawal by France of excess gold paid voluntarily to the Union in previous months; the outstanding amount of these excess payments made by France alone was reduced from \$61.9 million at June 1956 to \$15 million in December 1956 and to zero in January 1957. By March 1957 the total gold and dollar holdings of the Union were only a little above the level around the end of 1955.

As a result of the low price of gold in the London market during the year and the advantage to be gained by member countries in discharging their obligations to the Union in gold bars rather than in U.S. dollars, gold has continued to comprise the greater part of the Union's receipts and of its cash reserve. Up to November 1956, the Union's gold bars were held in London and New York but since that date the Union has also received gold in Paris.

In addition to the thirty-six bilateral repayment and amortisation agreements already concluded, a further twelve agreements have been negotiated in the period under review. The following table shows the total of claims and debts covered by repayment and amortisation agreements, the amounts already amortised (being the credit repaid) and the amounts outstanding at the end of March 1957.

E.P.U.: Bilateral amortisation agreements — position as at March 1957.

Creditors	Total covered	Amount received	Amount out-standing	Debtors	Total covered	Amount repaid	Amount out-standing
	in millions of units of account				in millions of units of account		
Austria	33	14	19	Denmark	130	61	69
Belgium	249	126	121	France	232	125	107
Germany	408	233	175	Iceland	5	3	2
Netherlands	194	89	105	Italy	207	106	101
Portugal	24	8	16	Norway	109	46	62
Sweden	88	49	39	United Kingdom	455	249	206
Switzerland	142	69	73				
Totals	1,138	590	547	Totals	1,138	590	547

Although the amortisation instalments are paid direct from debtor to creditor without passing through the mechanism of the Union, each payment is reflected in a corresponding reduction of the credit granted to or by the Union vis-à-vis the member countries concerned and, in order to keep the credit element within the accounting positions consistent, the cumulative accounting positions are adjusted accordingly (currently by four times the amount of credit repaid). Credit repaid under these agreements up to March 1957 totalled \$590 million, or 52 per cent. of the total amount covered.

3. The financial position of the Union in the spring of 1957.

The table shows the financial position of the Union, giving a cross-section of the situation of member countries after the operations for March 1957; the effect of the ante-quota settlements and adjustments, and the settlement (within and outside the quotas) of the resulting accounting positions are also illustrated.

E.P.U.: Cumulative positions of member countries, July 1950 to March 1957.

Member countries	Net positions cumulative surplus (+) or deficit (-) of country	Effect of ante-quota settlements and adjustments			Covered within the Union			
		Ante-quota settlements and adjustments	General adjustments	Gold recoverable (+) from Union by special settlement under Art.10 bis	Credit received (+) or granted (-) by Union	Gold actually paid (+) or received (-)	Gold settlement adjustment	Total equal to accounting surplus (+) or deficit (-) of country
in millions of units of account								
Austria . . .	- 91	+ 125	- 27	-	+ 2	+ 18	- 13	+ 7
Belgium . . .	+1,042	- 296	- 56	-	+ 172	+ 445	+ 72	+ 689
Denmark . . .	- 257	- 5	- 103	-	- 91	- 110	- 164	- 365
France . . .	-1,747	+ 102	+ 292	+ 196	- 289	-1,035	+ 167	-1,157
Germany . . .	+2,966	+ 12	+ 175	-	+ 788	+1,957	+ 408	+3,153
Greece . . .	- 266	+ 269	-	nil	+ 1	+ 2	-	+ 3
Iceland . . .	- 31	+ 15	- 5	-	- 5	- 8	- 8	- 21
Italy	- 718	+ 43	+ 8	-	- 167	- 403	- 98	- 667
Netherlands .	+ 317	+ 30	+ 57	-	+ 101	+ 157	+ 146	+ 404
Norway . . .	- 249	+ 60	- 137	-	- 81	- 61	- 183	- 326
Portugal . .	- 61	- 3	- 40	-	(- 26)	{ - 26 } { - 47 }	- 31	- 104
Sweden . . .	+ 148	+ 6	- 79	-	+ 19	+ 87	- 30	+ 75
Switzerland .	+ 223	-	- 26	-	+ 49	+ 105	+ 43	+ 197
Turkey . . .	- 396	+ 92	- 70	-	- 30	- 274	- 70	- 374
United Kingdom .	- 874	- 243	- 216	-	- 333	- 535	- 466	-1,334
Cumulative creditors .	+4,696	- 212	+ 45	-	+1,132	+2,770	+ 627	+4,529
debtors . . .	-4,692	+ 418	- 271	+ 196	- 998	-2,498	- 853	-4,349
Net totals . .	+ 4	+ 206	- 227	+ 196	+ 135	+ 272	- 227	+ 180

The Union had four important creditors in March 1957: Germany, Belgium, the Netherlands and Switzerland. Germany's total claim of \$788 million, \$227 million more than in March 1956, represents nearly three-quarters of all credit granted to the Union; the combined claims of Belgium and the Netherlands totalled \$273 million, and that of Switzerland \$49 million. A great deal of the credit granted to the Union had been outstanding for several years.

In terms of credit received the United Kingdom was the largest debtor in the Union in March 1957 with an outstanding debt of \$333 million, and was followed by France which had received credit to the extent of \$289 million.

(France's debt had risen sharply during the course of the year, partly as a result of the withdrawal of gold previously paid in voluntarily.) Italy, being the only debtor other than Turkey outside its quota, had the next largest debt to the Union, \$167 million, which equalled approximately the combined amounts of credit received by Denmark and Norway (\$91 million and \$81 million respectively).

Three additional factors, which are not immediately apparent from the tables, have influenced the working of the Union. They are (a) the repayment of bilateral debts existing in June 1950, (b) the interest paid and received on credits granted within the Union, and (c) the foreign exchange arbitrage scheme.

(a) The repayment of bilateral debts existing in June 1950. Of the \$861 million debts unfunded on bilateral accounts between the central banks of member countries in June 1950, the amount outstanding in March 1957 was only \$33 million, or 4 per cent. This amount consists mainly of a debt of \$17 million from Denmark to the United Kingdom and one of \$12 million from the United Kingdom to Sweden.

The amortisation and repayment of these old debts is taken into account in the monthly net positions of the countries concerned and is thus dealt with by the normal mechanism of the Union.

(b) Interest paid and received on credits granted within the Union. Up to December 1956 interest paid by the Union amounted to \$157.6 million, while the amount of interest received was \$153.2 million; the excess of interest paid by the Union was therefore \$4.4 million. Interest is calculated half-yearly and debited or credited to the net positions of member countries in June and December. The interest deficit has been covered by the yield from the investments of the Union.

Germany has received the largest net amount in respect of interest on credits granted to the Union (\$53.6 million), followed by Belgium (\$33.4 million), the Netherlands (\$19.1 million) and Switzerland (\$17.5 million). The United Kingdom has paid a net amount of \$62.1 million and France \$30.1 million.

(c) Foreign exchange arbitrage scheme. Previous Annual Reports have described how the introduction of this scheme in 1953 greatly reduced the bilateral positions between participating countries. The compensations of debts and claims through the exchange markets have continued to maintain the lower level of bilateral positions reported to the Agent. Austria joined the ten other E.P.U. countries as a participant in the scheme in January 1957.

The next table gives, in a simplified form, annual and quarterly figures of the Statement of Account. Grants by way of initial balances disappeared after the first year of the Union and since then the assets side of the statement has contained only the liquid resources (gold and U.S. dollars) and the credits granted by the Union, while the liabilities comprise the capital of the Union and the credits received.

E.P.U.: Summary of Statement of Account,
from opening (July 1950) to March 1957.

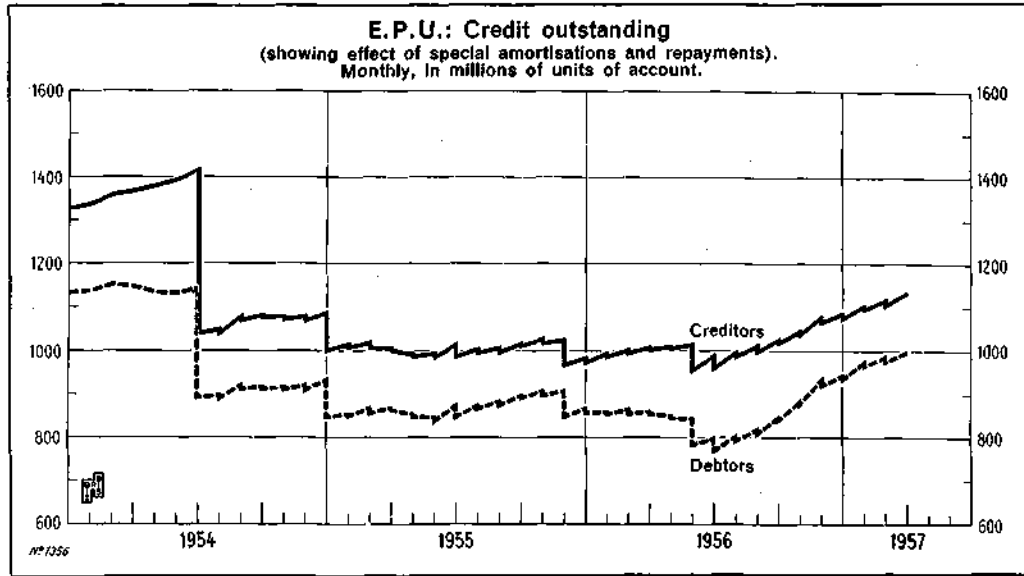
After operations for accounting period	Assets			Total of State- ment	Liabilities		
	Liquid resources	Grants not yet received	Credits granted		Capital	Grants not yet given	Credits received
In millions of units of account							
Opening (July 1950) . . .	350	215	—	565	286	279	—
1950 December	404	43	362	810	286	87	436
1951 December	217	—	843	1,060	272	—	788
1952 December	373	—	1,020	1,393	272	—	1,120
1953 December	475	—	1,166	1,641	272	—	1,366
1954 March	500	—	1,181	1,681	272	—	1,406
June	544	—	1,177	1,721	272	—	1,448
June (adj.)	414	—	959	1,372	272	—	1,098
September	433	—	952	1,385	272	—	1,110
December	423	—	967	1,390	272	—	1,116
1955 March	409	—	902	1,311	272	—	1,036
June	399	—	907	1,307	272	—	1,032
September	377	—	933	1,310	272	—	1,035
December	376	—	901	1,276	272	—	1,002
1956 March	409	—	894	1,303	272	—	1,029
June	438	—	832	1,270	272	—	996
September	426	—	882	1,308	272	—	1,034
December	390	—	978	1,367	272	—	1,094
1957 March	383	—	1,033	1,415	272	—	1,142

The totals of the statement, of liquid resources and of credits received had all attained record figures in June 1954 before the renewal adjustments for that year; the downward trend of these figures since that date and until the beginning of 1956 can be seen clearly in the table above.

Since June 1956 all the items of the statement, except the liquid resources and the capital, have increased steadily and by March 1957 they had risen above their end-1954 levels. The reason for this was the expansion of credit granted and received resulting from certain extreme creditor and debtor positions which became more pronounced during the year. The fall in the liquid resources has already been mentioned on page 216.

The table on the next page illustrates the effect of credit repayments on total credit and enables a comparison to be made between the development of bilateral repayments and new credit granted and received since June 1954.

Since the introduction of the bilateral repayment and amortisation scheme in June 1954, only Italy has received more new credit in the current operations than it has repaid bilaterally and to the Union; the United Kingdom has made repayments substantially in excess of the amount of new credit taken. Although France's credit position is shown to be almost in equilibrium, with repayments somewhat in excess of new credit, an examination of the figures for the individual years covered by the table reveals that over 60 per cent. of the repayments were made in the year from July 1954 to June 1955, whilst the whole of the new credit has been received since July 1956.



**E.P.U.: Credit amortised and new credit received and granted by countries,
June 1954 to March 1957.**

1. DEBTORS.

Cumulative debtor	Total credit received June 1954 (before adjustments)	Repayments made bilaterally and to Union	New credit received for current operations	Total credit received March 1957
	in millions of units of account			
Denmark	98	61	54	91
France	312	256	232	299
Iceland	6	3	3	5
Italy	122	118	162	167
Norway	89	46	39	81
Turkey	30	—	—	30
United Kingdom	485	249	97	333
Totals	1,142	732	588	998

2. CREDITORS.

Cumulative creditor	Total credit granted June 1954 (before adjustments)	Repayments received bilaterally and from Union	New credit granted for current operations	Total credit granted March 1957
	in millions of units of account			
Austria	73	24	(— 48)	2
Belgium	217	165	121	172
Germany	604	374	558	798
Greece	—	—	1	1
Netherlands	207	127	21	101
Portugal	30	12	(— 18)	—
Sweden	105	61	(— 25)	19
Switzerland	181	100	(— 32)	49
Totals	1,416	862	578	1,132

As regards the creditors, Germany stands alone in having granted more new credit than has been repaid to it. Indeed, Austria, Portugal, Sweden and Switzerland have also had credit repaid to them in the course of the current operations, in addition to the repayments received bilaterally and from the Union. Portugal has ceased to be a creditor and the bilateral repayments have been suspended for that country as well as for Austria, which has changed from debtor to creditor during the year. Greece has become a small creditor of the Union for the first time since 1952.

E.P.U.: Credits granted and received — time outstanding.

On value date in respect of operations for month	Outstanding				Totals
	for one year and less	for one to two years	for two to three years	for over three years	
in millions of units of account					
Granted by Union to debtors					
1951 September	470	—	—	—	470
1952 September	936	40	—	—	976
1953 September	163	822	40	—	1,024
1954 September	138	131	607	40	917
1955 September	184	137	113	446	880
December	184	100	160	410	855
1956 March	155	114	161	431	862
June	117	120	162	442	841
September	62	120	129	506	817
December	190	80	79	580	929
1957 March	255	59	88	593	985
Received by Union from creditors					
1951 September	563	—	—	—	563
1952 September	784	379	—	—	1,163
1953 September	272	658	295	—	1,226
1954 September	136	213	550	206	1,105
1955 September	135	93	129	665	1,023
December	100	46	186	661	992
1956 March	107	63	170	679	1,020
June	118	87	123	704	1,033
September	134	84	80	721	1,019
December	193	97	25	769	1,084
1957 March	234	95	54	743	1,126

In March 1957, 59 per cent. of the credit granted to the debtors of the Union had been outstanding for more than three years; for the creditors the proportion, at 66 per cent., was somewhat higher. The table shows that, whereas over the year to March 1957 the proportion of credit granted by the creditors and outstanding for over three years has not changed very greatly, the ageing of the debtors' debts has been much more marked as items have shifted into the higher categories. For both creditors and debtors there has been a decline of credit outstanding between one and three years; and in both cases new credit, of under one year, has risen substantially above the figures for

E.P.U.: Utilisation of the quotas
as at March 1957.

Member countries	Quotas	Utilised as at March 1957	
		Amounts	Percentages of quotas
		as creditor (+) or as debtor (-)	
	in millions of units of account		percentages
Austria	168	+ 7	+ 4
Belgium	805	+ 689	+ 86
Denmark	468	- 365	- 78
France	1,248	-1,157	- 93
Germany	1,200	+3,153	+ 263
Greece	108	+ 3	+ 3
Iceland	36	- 21	- 59
Italy	492	- 667	- 136
Netherlands	852	+ 404	+ 47
Norway	480	- 326	- 68
Portugal	168	- 104	- 62
Sweden	624	+ 75	+ 12
Switzerland	600	+ 197	+ 33
Turkey	120	- 374	- 312
United Kingdom	2,544	-1,334	- 53
Totals			overall averages
Creditors	4,357	+4,529	+ 104
Debtors	5,556	-4,349	- 78

recent years. It should be remembered that, in accordance with the cumulative principle, repayments of credit arising from bilateral amortisation instalments, special repayments and reversals of position always apply to the most recently created debt.

The debtors were utilising, on the average, 78 per cent. of their quotas in March 1957 and those of the creditors were being drawn upon to the extent of 104 per cent. However, if Germany, whose quota was exceeded by 163 per cent., is excluded, the average for the other creditors works out at only 44 per cent.

The main problems of the Union in the spring of 1957 concern not only the extreme positions of certain member countries and the length of time that credits granted and received have been outstanding but also the effect on all member countries, and therefore on the Union, of the Common Market and Free Trade Area, which are currently under discussion in the O.E.E.C.

IX. Banking Operations during the Period 1947-57.

Ten years have elapsed since the Bank resumed its active operations after the war.

A summary of these operations and a commentary on the balance sheet have appeared in each of the Annual Reports, but such radical changes have taken place in the course of this period that an outline of the development which has occurred in the business activities and actual structure of the Bank is necessary for an understanding of its present position and future possibilities.

The first post-war session of the Board of Directors, whose monthly meetings had been suspended during the war, took place in December 1946. At this meeting preparations were made for the negotiations which were to result in the settlement of questions arising from the war; at the same time the Bank was authorised to resume its operations, which had, in fact, been confined since the outbreak of hostilities to the taking of essential protective measures.

The Bank's financial position was sound. Apart from the assets and liabilities connected with the Hague Agreements of 1930, which had remained at the same level since 1932, the Bank had been able gradually to realise the investments which had been outstanding in 1939, to repay or safeguard the deposits entrusted to it and to strengthen its reserves.

The resources at the Bank's disposal at the end of 1946, therefore, though small, were liquid; they amounted to 200 million gold francs, or about \$66 million, of which 55 per cent. was in gold and 45 per cent. in dollars and Swiss francs. Of this total of 200 million gold francs, only 28 million was accounted for by deposits; but soon the European central banks again began to entrust to the Bank part of their gold and foreign exchange reserves.

At the same time arrangements were made with the U.S. authorities which enabled the Bank to reconstitute its cash holdings in dollars and to begin buying gold from and selling gold to the U.S. Treasury.

As a result of this resumption of the Bank's activity, the profit and loss account for the period ended in March 1947 showed a surplus of 700,000 gold francs.

It was impossible to foresee in detail how the Bank's operations would develop, since these are always governed by the needs and wishes of the central banks. But it was clear that a vast field of activity would be open to the Bank in its own particular sphere, that of short-term operations between European central banks. In fact, the volume of the Bank's operations and the amount of the resources at its disposal increased rapidly, especially from 1949 onwards.

**B.I.S.: Balance-sheet totals
and volume of operations.**

Financial year	Balance-sheet total (first part) at end of year	Volume of operations
	in millions of gold francs	
1946-47	270*	169
1947-48	327*	892
1948-49	494*	2,311
1949-50	755	6,790
1950-51	1,025	14,028
1951-52	1,010	17,640
1952-53	1,330	17,070
1953-54	1,512	15,946
1954-55	1,718	23,305
1955-56	1,757	24,856
1956-57	2,181	45,448

* Figures adjusted in accordance with the changes made in the presentation of the balance sheet in 1948, when the assets and liabilities connected with the Hague Agreements were transferred to the second section of the balance sheet.

The total of 2,181 million gold francs given for 31st March 1957 does not include either the assets and liabilities connected with the Hague Agreements of 1930, which are shown in the second section of the balance sheet, or the Bank's holdings of earmarked gold and the funds and securities held by it as Trustee or Agent, which are not included in the balance sheet. At the same date earmarked gold amounted to 738 million gold francs and the funds and securities not included in the balance sheet to 549 million.

Deposits at the Bank take the form either of currency deposits, mainly U.S. dollars or Swiss francs, or of deposits expressed in a weight of gold; the obligation of the Bank is to remit to the depositor either the same amount of currency at the central bank whose currency is being used or the same weight of gold in bars of the same fineness available at the same centre as those entrusted to it. Most of the Bank's gold operations are carried out in London and New York.

The development of the deposits entrusted to the Bank is shown in the following table.

The time deposits are for the most part at three months and, to a lesser extent, at six months, either at fixed term or at notice. Various central banks which have to administer funds belonging to governments or official institutions can deposit limited amounts for longer periods, sometimes as

B.I.S.: Deposits in gold and currencies.

End of financial year (31st March)	In a weight of gold		In currencies		Gold and currencies		
	Sight	Time	Sight	Time	Sight	Time	Total
	in millions of gold francs						
1947	18	—	6	4	24	4	28
1948	18	—	33	24	51	24	75
1949	22	—	72	148	94	148	242
1950	97	—	35	365	132	365	497
1951	141	38	94	488	235	526	761
1952	296	7	120	316	416	323	741
1953	477	—	96	483	573	483	1,056
1954	415	24	66	725	481	749	1,230
1955	384	69	99	880	483	949	1,432
1956	282	270	60	851	342	1,121	1,463
1957	83	544	35	1,214	118	1,758	1,876

much as one or even two years. The Bank accepts, apart from the central banks' deposits, only such deposits as, in the opinion of the Board of Directors, fall within the scope of the Bank's functions, which include, in particular, deposits entrusted to it by international organisations.

The above table shows that since 1947 there has been not only a growth in the volume but also a change in the nature of the Bank's deposits, the proportion accounted for by time deposits having increased considerably, especially in the last few years. This development, which has naturally strengthened the Bank's position, has been influenced both by the trend of interest rates on the principal markets and by the state of the reserves of the central banks.

Immediately after the war, when interest rates were very low and monetary reserves in Europe generally slender, it was difficult — and not very attractive — for the central banks to tie up any substantial amounts in the form of time deposits with the Bank.

Since then European monetary reserves have on the whole been strengthened and at the same time, in order to keep inflation in check, the systematic cheap-money policy has been replaced by stricter credit conditions and higher interest rates. As a result central banks have shown more interest in time deposits, especially in dollars. Furthermore, their gold reserves having been largely reconstituted, a certain number of them have agreed to entrust part of their holdings to the Bank in the form of deposits in a weight of gold.

* * *

The Bank has been able to maintain a proper balance between its gold holdings in the various centres and its holdings of currencies, particularly dollars.

B.I.S.: Assets.

End of financial year (31st March)	Gold		Currencies		Total
	Bars	Credits and other assets	Credits	Other assets	
in millions of gold francs					
1947	101	—	32	69	202
1948	138	5	15	101	259
1949	188	—	59	178	425
1950	285	—	95	305	686
1951	377	—	130	450	957
1952	511	2	107	322	942
1953	719	2	126	415	1,262
1954	604	47	159	633	1,443
1955	550	130	186	784	1,650
1956	505	272	28	883	1,688
1957	668	204	158	1,083	2,113

The table gives an overall view of the position, taking into account forward operations, which have come to play an important part in the Bank's policy, particularly in the past few years.

For the Bank, in order to be able to meet the wishes of the central banks, must always be in a position to buy, sell or exchange gold in the principal centres. On the other hand, it makes it a rule not to take up exchange positions except for small amounts and limited periods. Forward exchange and gold operations thus constitute an essential balancing factor — hence the increase in their volume, which has been facilitated by the reopening of the London market.

Forward operations cannot be shown in the balance sheet, which has to show the position at a certain date. The net balance of the Bank's forward gold operations is, however, given under "Memorandum accounts" at the foot of the balance sheet in order to enable readers to view the situation as a whole.

The figures in the following table show the development of the Bank's gold position, taking into account the balance of its forward operations.

B.I.S.: Gold position.

End of financial year (31st March)	Present position				Net balance of forward operations	Final gold position
	Gold in bars	Credits and other assets in gold	Deposits in a weight of gold	Net gold assets		
In millions of gold francs						
1947	83	—	— 18	65	+ 18	83
1948	123	5	— 18	110	+ 15	125
1949	151	—	— 22	129	+ 37	166
1950	268	—	— 97	171	+ 17	188
1951	364	—	— 179	185	+ 13	198
1952	438	2	— 306	135	+ 73	208
1953	713	2	— 477	238	+ 6	244
1954	609	47	— 439	217	— 5	212
1955	625	130	— 453	302	— 75	227
1956	603	272	— 552	323	— 98	225
1957	513	204	— 627	90	+ 155	246

The development of the Bank's final gold position conforms very closely to that of the total of its own funds, since its exchange positions are generally in equilibrium. The Bank's own gold holdings represent both an exchange reserve and a liquidity reserve. Experience has shown, especially in 1939, how valuable such a reserve can be. It has therefore been the Bank's policy gradually to increase these holdings as its financial position improves.

The Bank's resources, consisting of its own funds (capital and reserves) and its deposits, have been employed in the form of credits and investments, the volume and distribution of which have varied greatly during the ten years under review.

B.I.S.: Active resources and their utilisation.

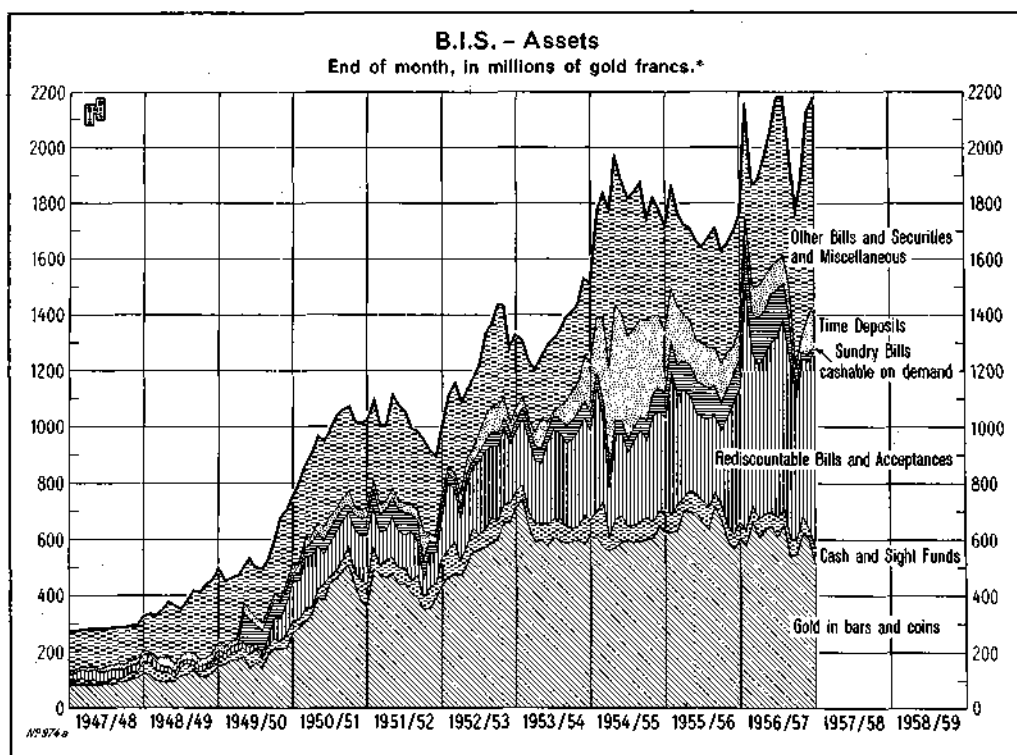
End of financial year (31st March)	Resources		Total	Utilisation	
	Deposits	Own funds		Gold and investments in gold	Credits and investments in currencies
in millions of gold francs					
1947	28	174	202	101	101
1948	75	184	259	143	116
1949	242	183	425	198	237
1950	497	189	686	285	401
1951	781	196	957	377	580
1952	741	201	942	513	429
1953	1,056	206	1,262	721	541
1954	1,230	213	1,443	651	792
1955	1,432	218	1,650	680	970
1956	1,463	225	1,688	777	911
1957	1,876	237	2,113	872	1,241

The volume of the Bank's short-term credit operations has increased steadily since their resumption in 1947, this development having been conditioned not only by the growth in its resources but also by the ever-changing needs of the central banks.

In general, during the first post-war years the Bank made available to the central banks additional amounts of gold and convertible currencies which, though modest, had the advantage of being utilisable without formalities at a time when their reserves were severely strained. It also gave assistance during this period by providing funds in anticipation of long-term loans due to be issued on foreign markets.

When Europe's foreign exchange reserves began to improve and it became possible for certain countries to repay in advance the foreign-currency credits they had obtained during the early post-war years, the Bank was able to facilitate such repayments by means of short-term operations designed to permit a suitable spreading of the resultant burden on the Treasuries, at the same time granting them more favourable terms adapted to the new conditions.

The central banks have also made considerable use of the Bank in order to reinforce their domestic credit policies. Depending on the circumstances, the Bank's operations have served sometimes to restrict the volume of credit and at other times to increase it. It has happened for example that a central bank wishing to mop up excessive liquid funds on its market has deposited with the Bank funds borrowed by public or semi-public bodies, on the understanding that these funds shall not be used on the market of the country concerned but shall only be lent abroad. From the point of view of market liquidity, these funds have thus been sterilised during the whole period of their deposit at no undue cost to the authorities.



* First part of statement of account.

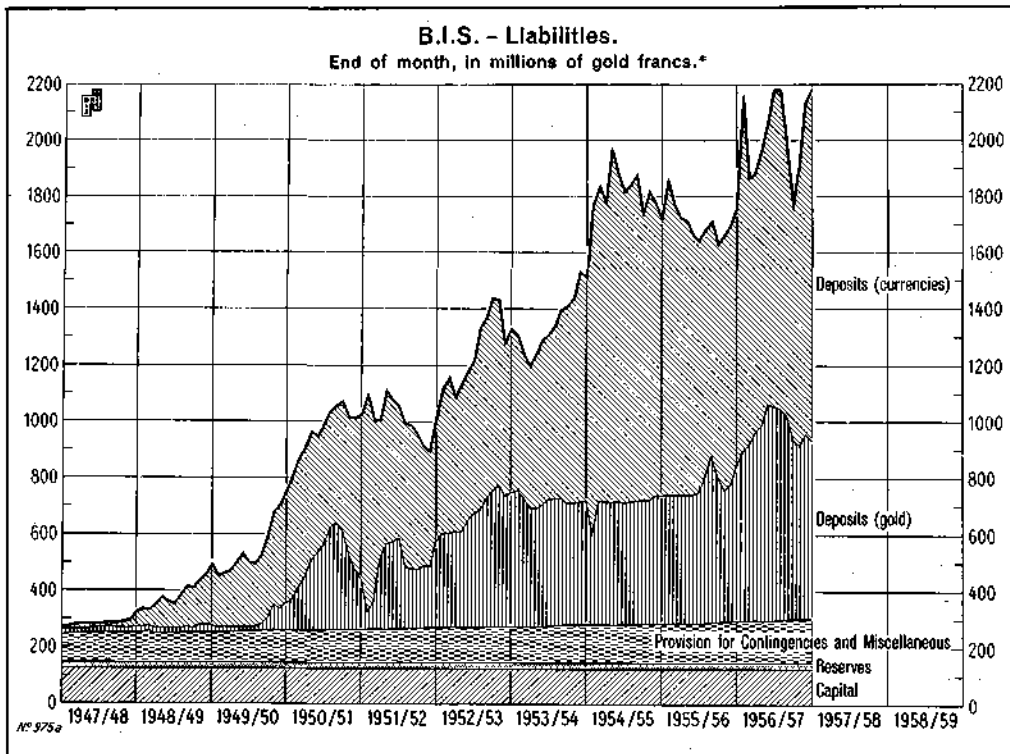
Other operations, generally based on a spot sale of gold or currency to the central bank concerned and a corresponding forward repurchase, have, on the other hand, temporarily helped to increase the liquidity of the market.

Thus the Bank's operations have not only, in accordance with its Statutes, consistently been carried out with due regard to the monetary policies of the central banks concerned, but they have also on a number of occasions constituted an active element of these policies.

Exchange operations and purchases, sales and exchanges of gold between central banks have also been expanding. The Bank has at its disposal a relatively large amount of gold, which is distributed among the most important centres. In the United States it enjoys the same status as foreign central banks and is therefore authorised to purchase gold from and sell gold to the U.S. Treasury through the intermediary of the Federal Reserve Bank of New York. The reopening of the gold market in London enabled the Bank also to resume active operations in this centre. Finally, the Bank is one of the correspondents of the International Monetary Fund for purchases and sales of gold between monetary authorities in which the Fund serves as an intermediary.

The graphs on this page and the next illustrate the development of the Bank over the ten years since the resumption of its activities after the war.

Although there was a considerable expansion in the volume of the Bank's operations during this period, its profit margins have remained



* Not including liabilities connected with the execution of the Hague Agreements.

extremely narrow. Net profits have nevertheless risen steadily, enabling the Bank to resume the payment of a dividend in 1950 and to increase it progressively in subsequent years.

B.I.S.: Profits and dividends.

Financial year	Profit before provisions for contingencies	Net profit	Dividend	
			Amount paid	Percentage of paid-up capital
In millions of gold francs				
1947-48	9.5	—	—	—
1948-49	5.1	—	—	—
1949-50	6.0	2.6	—	—
1950-51	6.1	3.1	2.5	2.0
1951-52	6.4	2.7	2.5	2.0
1952-53	6.9	3.5	3.4	2.7
1953-54	9.9	5.0	3.9	3.1
1954-55	9.4	4.6	4.2	3.4
1955-56	11.6	6.0	4.9	3.9
1956-57	16.0	8.2	6.3	5.0

* * *

The past ten years have been marked not only by steady expansion but also by a transformation of the Bank's methods and their continual adaptation to constantly changing conditions.

During the Bank's early years its technique was chiefly influenced by its functions under the Hague Agreements of 1930 and by its participation in joint operations undertaken by the main banks of issue in order to remedy the effects of the central European crisis of 1931.

Its operations at that time largely consisted of direct interventions on the markets in need of support. The Bank bought, against gold and currencies, the currency of the country in question in order to strengthen the latter's exchange position, investing the funds purchased, in agreement with the central bank concerned, in short-term bills.

The Bank therefore had to take up substantial exchange positions, though these, it is true, were in certain cases, such as that of the Hague Agreements, covered by special guarantees. At the same time, although it was a holder of short-term bills, it was not always able, in practice, to discontinue its intervention when it wished to do so, lest it exert pressure on the exchange market at an inopportune moment — with the result that operations of this kind were not in fact subject to any clearly defined time-limit.

Thus, when the Bank resumed its operations after the war it found it desirable to adopt new techniques embodying the experience it had gained. Its operations now cover specific and relatively short periods and renewal options are limited by prior agreement. The amount involved in an operation is precisely defined either in a weight of gold or in a specified currency, the debtor being under the obligation to remit to the central bank concerned on the agreed date the same weight of gold or the same amount of currency.

Moreover, the Bank does not take up exchange positions except for small amounts or short periods. The credits granted are arranged to correspond, on the whole, with deposits of a similar maturity. Its spot purchases and sales are always matched either by another such operation very close in date or by a corresponding forward operation. A technique often resorted to for this purpose is that of swaps, which combine a spot operation with a forward operation.

The Bank's liquidity is kept at a high level, as befits an organisation which operates exclusively at short term and whose principal correspondents are central banks.

Its exchange and liquidity policies are in fact closely linked. For if, owing to a lack of immediately available resources, the Bank were to be obliged, in order to meet its commitments in a given currency, to sell gold or other currencies, it would need for this purpose to take up unwanted exchange positions. Conversely, the risk inherent in large exchange positions might on occasion result in the Bank's being deprived of part of the liquid resources on which it should always be able to rely.

Contrary to what might have been feared, the strict discipline to which the Bank has subjected itself by maintaining a high degree of liquidity and

avoiding large exchange positions has, as has been seen, in no way impeded the development of its operations. This policy excludes the possibility of any large profit margins, but by establishing the Bank's credit on sound foundations and by thus increasing the volume of resources placed at its disposal it in fact consolidates its financial position.

The Bank has been entrusted during the last ten years with important new functions, in particular those of Agent for the O.E.E.C. for the operation of the European Payments Union and of Depositary for the High Authority of the European Coal and Steel Community for the purpose of the custody of the common pledge securing its loans. These functions, which are in conformity with the purposes for which the Bank was created, enable it to make a contribution, on the technical plane, to the monetary and economic organisation of present-day Europe.

X. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1957, examined and certified by the auditors, is reproduced at the end of the present Report. There has been no change in the presentation of the various items.

The method of conversion into gold francs (units of 0.290 322 58... grammes fine gold — Article 5 of the Statutes) of the various currencies included in the balance sheet is the same as that adopted in the preceding years; the conversion is based on the exchange rates quoted for the various currencies against dollars and on the U.S. Treasury's selling price for gold at the end of the financial year.

The total of the first section of the balance sheet as at 31st March 1957 amounts to 2,181,003,300 gold francs, against 1,756,706,820 gold francs a year previously. The increase is accounted for to the extent of about four-fifths by a rise in currency deposits and to the extent of a little less than one-fifth by a rise in deposits expressed in a weight of gold.

The total volume of business handled by the Bank during the financial year under review was almost twice as great as in the previous year, as can be seen from the table on page 224. As in the past, these operations were conducted in conformity with the monetary policy of the central banks concerned.

As stated in Note 1 at the foot of the monthly statements of account, the following items are not included in the statements, viz. gold under earmark and securities held in custody for the account of central banks and other depositors, the funds and securities held by the Bank as Agent for the Organisation for European Economic Co-operation (in connection with the European Payments Union), as Depositary under the Act of Pledge concluded with the High Authority of the European Coal and Steel Community, and as Trustee or Fiscal Agent for international loans.

As was done in the case of the balance sheet as at 31st March 1956, the amounts in question are shown at the foot of the assets column under the heading "Memorandum accounts (b)". The figures are given in the following table.

B.I.S.: Memorandum accounts.

Items	31st March 1956	31st March 1957
	in millions of gold francs	
Earmarked gold	961.6	736.2
Bank balances	54.5	35.3
Bills and other securities	476.4	513.4
Total of items not included in the balance sheet	1,492.5	1,286.9

The total of the first part of the Bank's statement of account rose from 1,756.7 million gold francs on 31st March 1956 to 2,146.4 million on 30th April, declining again to 1,865.1 million on 31st May. It subsequently increased once more, amounting on 30th September to 2,181.0 million; by 31st December it had declined to 1,767.6 million, whereafter it increased steadily to 2,181.0 million on 31st March 1957. The figures for the beginning and the end of the financial year thus represent the lowest and the highest levels reached.

* * *

ASSETS.

The total of the item "Gold in bars and coins" amounted to 602.4 million gold francs in the statement of account as at 31st March 1956. After having reached the highest level for the financial year — 659.7 million — on 31st May, it registered various fluctuations and was down to 535.8 million on 30th November. It subsequently rose to 618.3 million on 31st January and then declined again to 513.0 million, the lowest figure for the financial year, on 31st March 1957.

As has already been pointed out in previous Reports, the variations in this item depend not only on the movement of the deposits expressed in a weight of gold received by the Bank but also on the development of its investments in gold (in the form of credits or advances in gold or of bills expressed in a weight of gold) — shown on the assets side under the headings "Time deposits and advances" and "Other bills and securities" — and of its forward operations.

The volume of these operations has recently been increasing, for the reasons mentioned in Chapter IX. Apart from forward sales and purchases of one currency against another, they include relatively large forward sales and purchases of gold against currencies and also combined spot and forward operations (swaps).

On 31st March 1957, the total of current forward exchange operations stood at 384 million gold francs. Forward purchases of gold totalled 388 million and forward sales of gold 233 million.

The forward gold operations undertaken resulted on 31st March 1957 in a net balance of gold to be received (and currencies to be delivered) of 155 million gold francs. This amount is shown under "Memorandum Accounts" at the foot of the balance sheet. The corresponding net balance on 31st March 1956 had been 98 million gold francs of gold to be delivered (and currencies to be received).

As a result of this development the total of gold in bars and coins was lower, during most of the financial year, than that of the deposits, whereas if account is taken of the gold investments and the balance of forward operations the Bank's net stock of gold remained at a consistently high level.

In the following table the items which have to be taken into account in considering the Bank's gold position are compared as they stood on certain representative dates chosen so as to bring out the maximum and minimum figures for the year.

B.I.S.: Gold position.

End of month	Present position				Gold forward operations (net balance)	Final net gold position
	Gold in bars	Credits and other assets in gold	Deposits in a weight of gold	Net gold assets		
In millions of gold francs						
1956 March	603	272	-552 (min.)	323 (max.)	- 98 (min.)	225
April	582	271	-597	256	- 34	222 (min.)
May	660 (max.)	234	-623	271	- 44	227
August	648	264	-761 (max.)	151	+ 76	227
November	536	298 (max.)	-720	114	+124	236
1957 February	604	194 (min.)	-652	146	+ 94	240
March	513 (min.)	204	-627	90 (min.)	+155 (max.)	245 (max.)

The item "Cash on hand and on sight account with banks" did not vary very greatly. On 31st March 1956 it amounted to 57 million gold francs and on 31st March 1957 to 56.9 million. It reached its highest level — 71.2 million — on 30th September 1956 and was at its lowest — 38.6 million — on 28th February 1957.

The average balance shown under this heading during the financial year 1956-57 amounted to approximately 57 million gold francs, compared with 65 million in the preceding financial year.

On 31st March 1957 cash held in dollars accounted for 81 per cent. of the Bank's total cash holdings in currencies and holdings of Swiss francs for 15 per cent. The corresponding figures on 31st March 1956 were 91 per cent. and 6 per cent. respectively.

Gold and cash holdings in currencies, taken together, represented 26.1 per cent. of the total of the first part of the statement of account on 31st March 1957, against 37.5 per cent. on 31st March 1956.

There were fairly marked fluctuations in the total of the rediscountable portfolio, which showed an appreciable increase during the financial year. The following table gives the maximum and minimum figures for the items "Commercial bills and bankers' acceptances" and "Treasury bills".

B.I.S.: Rediscountable portfolio.

End of month	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of gold francs		
1956 March	40.3	440.6 (min.)	480.9 (min.)
April	38.5	629.3 (max.)	667.8 (max.)
June	29.7 (min.)	519.7	549.4
October	64.0 (max.)	611.1	675.1
1957 March	60.8	635.3	696.1

As in previous years, the greater part of the Bank's holdings of Treasury bills consisted of U.S. Treasury bills; the bankers' acceptances were dollar acceptances.

The total of the item "Sundry bills cashable on demand" amounted to 106.6 million gold francs on 31st March 1956. It reached 171.6 million, its highest point in the financial year, on 30th September and was down to 22.9 million, its lowest point in the year, on 31st January 1957. After that it showed little variation and on 31st March 1957 it stood at 23.7 million.

The total of the Bank's sight investments, comprising the various items mentioned above, was 1,246.8 million gold francs at the beginning of the financial year. During the year it remained constantly above this figure, except on 31st December 1956, when it had declined to 1,134.6 million. The highest level for the year — 1,649.6 million — was reached on 30th April 1956. On 31st March 1957 the total of sight investments stood at 1,289.6 million. This figure represented 59.1 per cent. of the total of the first part of the balance sheet, against 71 per cent. a year earlier. Since the percentage of sight deposits declined in the same period from 19.4 per cent. to 5.6 per cent., the Bank's liquidity remained highly satisfactory.

The total of the item "Time deposits and advances", which had amounted to 98.8 million gold francs on 31st March 1956, fluctuated within relatively narrow limits until 30th November 1956, when it stood at 100.4 million. It then fell, however, touching its lowest point in the financial year — 57.5 million — on 31st January 1957, but afterwards rose again, reaching 146.5 million, its highest level, at the end of the financial year.

The total of the item "Other bills and securities", on the other hand, practically doubled in the course of the year. Having stood at 341.0 million gold francs on 31st March 1956, it fell to 290.6 million, its lowest level for the year, on 31st May, after which it rose to more than 500 million and remained in the vicinity of that figure from the end of September 1956 until the end of January 1957, subsequently increasing further and reaching its maximum — 673.8 million — on 31st March 1957.

The following table affords a comparison of the gold and currency investments contained in the two above-mentioned groups of investments.

B.I.S.: Time deposits and advances and other bills and securities.

Items	31st March 1956	31st March 1957	Difference
	in millions of gold francs		
Gold	272.4	204.2	- 68.2
Currencies	167.3	616.1	+ 448.8
Total	439.7	820.3	+ 380.6

Compared with the position on 31st March 1956, gold investments had declined on 31st March 1957, whereas currency investments showed a considerable increase. In the course of the year, however, gold investments reached a relatively high level: on 30th November 1956, for example, they amounted to 298.4 million, against the figure of 243.3 million reached by currency investments.

The following table shows the distribution of the above-mentioned investments from the point of view of time and compares their composition at the beginning and end of the financial year.

B.I.S.: Time deposits and advances and other bills and securities.

Period	31st March 1956	31st March 1957	Difference
	in millions of gold francs		
Not exceeding 3 months	255.1	561.1	+ 306.0
Between 3 and 6 months	61.1	192.0	+ 130.9
Between 6 and 9 months	28.2	28.3	+ 0.1
Over 1 year	95.3	38.9	- 56.4
Total	439.7	820.3	+ 380.6

Investments at not exceeding three months more than doubled and investments at between three and six months more than trebled. The proportion of the total accounted for by investments at over six months was only about 8 per cent. on 31st March 1957, compared with 28 per cent. on 31st March 1956.

* * *

LIABILITIES.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 20.9 million gold francs on 31st March 1956 to 21.3 million on 31st March 1957. As a result of the operations of the year (see below, section 5, "Financial results") the balance of the Profit and Loss Account, which comprises the profit for the financial year ended 31st March 1957 and the balance brought forward from the preceding year, amounted to 13.1 million gold francs on 31st March 1957, against 10.1 million a year earlier. The amount of the item "Provision for Contingencies" rose from 126.4 million gold francs on 31st March 1956 to 133.5 million on 31st March 1957. For the item "Miscellaneous" the figure was 11.2 million gold francs at the beginning of the financial year and 12.0 million at the end.

The movements of deposits during the financial year are summarised in the table on the following page; it may be added that they are in fact reflected in the movement of the aggregate of the first part of the statement of account, which has already been described.

B.I.S.: Deposits in gold and currencies.

End of month	Deposits in gold	Deposits in currencies	Total
	In millions of gold francs		
1956 March	552.1 (min.)	911.0	1,463.1 (min.)
April	596.6	1,254.3 (max.)	1,850.9
August	761.3 (max.)	1,001.4	1,762.7
September	759.0	1,124.2	1,883.2 (max.)
December	632.6	831.7 (min.)	1,464.3
1957 March	626.6	1,249.4	1,876.2

The following table enables the trend of deposits to be followed over the past two financial years.

B.I.S.: Short-term and sight deposits.

Items	31st March 1955	31st March 1956	31st March 1957
	in millions of gold francs		
Gold			
Central banks	447.7	457.3	470.4
Other depositors	5.5	94.8	156.4
Total in gold	453.2	552.1	626.8
Currencies			
Central banks	941.5	869.0	1,071.5
Other depositors	37.2	42.0	177.9
Total in currencies	978.7	911.0	1,249.4
Total in gold and currencies	1,431.9	1,463.1	1,876.2
Comprising			
Sight funds	463.1	341.8	116.7
Short-term funds	948.8	1,121.3	1,757.5
Total	1,431.9	1,463.1	1,876.2

Thus, deposits expressed in a weight of gold increased during the financial year by 74.7 million gold francs and currency deposits by 338.4 million. The increase was accounted for as follows (in millions of gold francs):

Central banks	Deposits in a weight of gold	+ 13.1
	Deposits in currencies	+ 202.5
	Total	+ 215.6
Other depositors	Deposits in a weight of gold	+ 61.6
	Deposits in currencies	+ 135.9
	Total	+ 197.5

It should, however, be pointed out that, to suit the convenience of the depositor concerned, certain fixed deposits received by the Bank in a weight of gold took the form of a swap of gold against currencies and are therefore

shown on the liabilities side as currency deposits. The total amount of these deposits was 77 million gold francs on 31st March 1956 and 131 million on 31st March 1957. They were made solely by central banks.

Deposits in a weight of gold thus actually increased during the financial year by 128.7 million and currency deposits by 284.4 million.

The distribution of the deposits expressed in a weight of gold and in currencies is shown, according to term, in the following table.

B.I.S.: Deposits in gold and currencies
(central banks and other depositors).

Period	Deposits in gold			Deposits in currencies		
	31st March 1956	31st March 1957	Difference	31st March 1956	31st March 1957	Difference
in millions of gold francs						
At sight	282.0	83.3	— 198.7	59.9	35.5	— 24.4
At not exceeding 3 months	239.1	442.5	+ 203.4	731.9	929.1	+ 197.2
Between 3 and 6 months	31.0	101.0	+ 70.0	41.8	209.5	+ 167.7
Between 6 and 9 months	—	—	—	13.3	16.4	+ 3.1
Between 9 and 12 months	—	—	—	1.4	1.4	—
Over 1 year	—	—	—	62.7	57.5	— 5.2
Total	552.1	626.8	+ 74.7	911.0	1,249.4	+ 338.4

The financial year in question was thus marked, to an even greater extent than the preceding year, by a shift from sight deposits to short-term deposits. This movement was particularly pronounced in the case of deposits expressed in a weight of gold. Sight deposits in gold and in currencies, taken together, declined by 223.1 million gold francs, whereas deposits at not exceeding three months rose by 400.6 million and deposits at between three and six months by 237.7 million; the variations in the other categories of deposits were negligible. It is, in fact, precisely its deposits at three months and at between three and six months which make it easier for the Bank to intervene in favour of its correspondents by providing advances and credits.

In view of the interest rates allowed on these deposits, which are mostly in dollars, it is no longer possible, given the present conditions on the American market, to obtain any at all substantial interest margins on them except when they are used to extend short-term facilities. It is, however, important that the Bank should possess a large volume of resources of this kind.

The volume of the Bank's gold operations — still in the form of purchases, sales, exchanges and swaps — was half as large again as in the previous financial year. Transactions passing through sight accounts also showed a net increase. As has already been mentioned, there was likewise a net increase in swaps and forward operations.

But, to an even greater extent than in the previous year, the profit margins on gold operations remained extremely small. Nevertheless, the Bank was able in a large measure to render its correspondents the technical services which they required.

The Bank has continued as in the past to keep in touch with the major international financial institutions, such as the International Bank for Reconstruction and Development and the International Monetary Fund. Furthermore, the number of other international organisations to which it renders technical assistance increased during the financial year.

Among the latter, mention may be made of the Council of Europe Resettlement Fund. The governments subscribing to the Fund have agreed to pay their contributions to their respective central banks for the account of the Bank for International Settlements. The Bank has therefore opened accounts in the name of the Resettlement Fund; it has been informed that the Fund enjoys the same privileges as the Council of Europe.

* * *

SECOND SECTION OF THE BALANCE SHEET.

As in previous years, the second section of the balance sheet consists solely of the assets and liabilities connected with the execution of the Hague Agreements of 1930. The total for this section remains unchanged at 297,200,598 gold francs.

2. The Bank as Trustee and Fiscal Agent for international government loans.

According to information received, the amounts of new bonds of the German External Loan 1924 (Dawes Loan) and of the German Government International Loan 1930 (Young Loan) which have been issued by the Government of the Federal Republic of Germany in accordance with the London Agreement on German External Debts of 27th February 1953 are approximately as follows.

German External Loan 1924
(Dawes Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	39,503,000	7,713,000
Belgian	£	364,100	98,600
British	£	7,019,000	1,895,900
French	£	1,466,800	375,500
Swedish	S.Kr.	14,209,000	—
Swiss	£	1,061,700	102,000
Swiss	Sw.fcs	8,072,000	398,000

German Government International Loan 1930
(Young Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	51,633,000	6,383,000
Belgian	B.fcs	188,881,000	42,756,000
British	£	16,135,900	3,830,400
French	Fr.fcs	31,042,400,000	6,830,500,000
German	DM	9,246,000	277,000
Swedish	S.Kr.	89,483,000	5,887,000
Swiss	Sw.fcs	57,869,000	1,373,000

The operations for the validation and exchange of the old bonds are continuing.

During the year under review, the Bank in its capacity as Fiscal Agent of the Trustees for the Conversion and Funding Bonds of the Dawes Loan and as Trustee for the Conversion and Funding Bonds of the Young Loan regularly received the interest payments due under the terms of the London Agreement, equivalent altogether to about 14.6 million gold francs for the Dawes Loan and about 36.5 million gold francs for the Young Loan. The payment of the sinking-fund annuities is to begin only in 1958.

According to information received, the amounts of the bonds of the Austrian Government International Loan 1930 which have been assented and are in circulation are as follows:

Anglo-Dutch issue	£	963,100
Swiss issue	Sw.fcs	7,082,000

During the year under review, the Bank in its capacity as Trustee received the equivalent of about 1.7 million gold francs in respect of the interest service on the bonds assented or still to be assented. The payment of the sinking-fund annuities is to begin only in 1959.

With regard to the coupons which matured between 1st July 1938 and 1st January 1945 inclusive, the payments provided for in the arrangements concluded with the Federal Republic of Germany have been effected through the intermediary of the Bank, acting in its capacity as Trustee. Under these arrangements the last coupon is to be paid, to the extent of 75 per cent. of its nominal value, on 1st July 1962. The coupon-holders can, however, obtain payment in advance subject to the deduction of a discount.

3. The Bank as Depositary under the terms of the Act of Pledge concluded with the High Authority of the European Coal and Steel Community.

In the preceding Annual Reports an account was given of the new functions which the Bank has assumed as Depositary under the terms of an Act of Pledge concluded on 28th November 1954 with the High Authority of the European Coal and Steel Community, Luxemburg.

With the consent of the lenders of funds to the High Authority, the Act of Pledge has been amended, by a Supplementary Act dated 16th May 1956, so as to give the High Authority more flexibility in its future financial operations and to enable it to make its operations conform more closely with local practices.

Under the Act of Pledge the Bank for International Settlements has agreed to take into custody the securities constituting the common pledge held for the benefit of all present and future lenders to the High Authority in respect of the funds borrowed by it. The loans contracted by the High Authority up to the present, amounting altogether to the equivalent of about 500.8 million gold francs, are listed below.

Series of Secured Notes of the High Authority	Date of issue	Country of issue	Lender	Amount of loan	Rate of interest %	Period of loan (years)
1st	1954	United States	U.S. Government	\$ 100,000,000	3%	25
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fcs 200,000,000	3½	27
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	3%	26
		Germany	Landesbank für Westfalen, (Girozentrale), Münster	DM 25,000,000	3%	26
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fcs 20,000,000 Lux.fcs 5,000,000	3½	27
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	Fr.fcs 350,000,000		
6th	1956	Switzerland	Public issue	Sw.fcs 50,000,000	4%	18
7th	1957	United States	Public issue	\$ 25,000,000	5½	18
8th			" "	\$ 7,000,000	5	5
9th			Bank loans	\$ 3,000,000	5	5

The distribution of the credits granted out of the proceeds of the first U.S. loan was completed in 1955 and details regarding their allocation were given in the Twenty-sixth Annual Report. The funds derived from the loans contracted by the High Authority in Belgium, Germany, Luxemburg and the Saar are still being distributed. The proceeds of the loan issued in Switzerland were used to extend credits to three Italian enterprises, two German enterprises and one enterprise in the Saar. The funds derived from the second U.S. loan of \$35,000,000 were allotted, in the form of credits, to eleven German enterprises and two Italian enterprises.

4. The Bank as Agent for the Organisation for European Economic Co-operation (European Payments Union).

The formation and working of the European Payments Union has been described in previous Annual Reports of the Bank and the description is brought up to date in Chapter VIII of the present Report.

The Bank has continued to act as Agent for the Organisation for European Economic Co-operation under the arrangements previously made. The expenses of the Bank as Agent for O.E.E.C. amounted to 566,354 gold francs in the twelve months to March 1957; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1957).

5. Financial results.

The accounts for the twenty-seventh financial year ended 31st March 1957 show a surplus, before providing for contingencies, of 16,014,462 gold francs, the gold franc being as defined in Article 5 of the Bank's Statutes, i.e. the equivalent of 0.290 322 58... grammes of fine gold. The comparable figure for the preceding financial year was 11,642,683 gold francs.

The net amount of interest, discount and commission earned was appreciably larger than in the previous year. Income received under the terms of the Arrangement dated 9th January 1953 with the Federal Republic of Germany, at approximately 4 million gold francs, remained unchanged.

Costs of Administration were fractionally higher than in 1955-56.

For the purpose of the Balance Sheet as at 31st March 1957, the amounts of the assets and liabilities in currencies have been converted to the nearest gold franc on the basis of the exchange rates for the various currencies against dollars and of the U.S. Treasury's selling price for gold at the end of the financial year. This conversion is carried out at the quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies. All assets have been valued at or below market quotations, if any, or at or below cost.

From the surplus for the financial year ended 31st March 1957, the Board of Directors has decided to deduct a sum of 750,043 gold francs in order to write off the cost of a building purchased during the year. It was further decided that it is necessary to transfer 7,051,432 gold francs to the provision for contingencies. This provision now amounts to 133,500,000 gold francs.

The Net Profit for the year, after deducting the transfers referred to above, amounts to 8,212,987 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 410,649 gold francs, and after adding the balance of 4,852,390 gold francs brought forward from the preceding year, there is a sum of 12,654,728 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 31.50 gold francs per share payable in Swiss francs in the amount of 45 Swiss francs per share, involving a distribution of 6,300,000 gold francs, and should decide to carry forward the balance of 6,354,728 gold francs. The proposed dividend of 31.50 gold francs per share corresponds to 5.04 per cent. on the paid-up capital. The dividend declared at the last Annual General Meeting was 24.50 gold francs per share payable in the amount of 35 Swiss francs per share.

The accounts of the Bank and its twenty-seventh Annual Balance Sheet have been duly audited by Messrs Price Waterhouse & Co., Zurich. A copy of the Balance Sheet, the Report of the Auditors and the Profit and Loss Account will be found at the end of this Report.

6. Changes in the Board of Directors and in Executive Officers.

The mandate as a Director of Mr Per Åsbrink, Governor of the Sveriges Riksbank, being due to expire on 31st March 1957, he was re-elected by the Board, at its meeting held on 11th March 1957, under Article 28(3) of the Statutes for a period of three years ending 31st March 1960.

Monsieur H. Deroy, who had been appointed by the Governor of the Banque de France as a Director under Article 28(2) of the Statutes and whose term of office was due to expire on 31st March 1957, was re-appointed in March 1957 for a further period of three years ending 31st March 1960.

Sir Otto Niemeyer, who had been appointed by the Governor of the Bank of England as a Director under Article 28(2) of the Statutes and whose mandate was due to expire on 6th May 1957, was re-appointed in April 1957 for a further period of three years ending 6th May 1960.

In April 1957 Sir George Bolton relinquished his functions as Alternate to Mr C.F. Cobbold, Governor of the Bank of England, and Mr J.M. Stevens, D.S.O., O.B.E., or in his absence Mr J.St.J. Rootham, were appointed by Mr Cobbold as his Alternates in succession to Sir George Bolton.

The Bank lost two of its Managers during 1956, Mr Per Jacobsson having resigned in October in order to take up the appointment of Managing Director and Chairman of the Board of Executive Directors of the International Monetary Fund and Mr Oluf Berntsen having retired in November. Mr Jacobsson had since 1931 rendered untiring and brilliant services as Economic Adviser and as Head of the Monetary and Economic Department. His wide experience of monetary questions, combined with his remarkable capacity for work and his extensive personal connections with economic and financial circles in many countries, made his services exceptionally valuable. Mr Berntsen, who joined the Bank as a Manager in the Banking Department in 1946, had for ten years rendered outstanding services to the Bank, his wide knowledge of international banking having been of great assistance in the development of the Bank's post-war banking operations.

In November 1956 Dr H.H. Mandel, formerly an Assistant Manager, was appointed a Manager of the Bank.

In view of the departure of Mr Per Jacobsson, the Bank has this year secured the services as external economic advisers of Dr Paolo Baffi, Economic Adviser to the Banca d'Italia, and Professor Friedrich A. Lutz, of the University of Zurich.

In April 1957 Dr A. Rainoni, formerly a Head of Section in the Monetary and Economic Department, was appointed Research Sub-Manager.

Conclusion.

The year 1956 was notable for a number of reasons. From the purely monetary and economic point of view, its most striking feature was the persistence of the boom which has now prevailed for several years, so that measures designed to restrain it and to favour sound and durable expansion had, almost everywhere, to be maintained and even intensified. The rate of economic expansion generally slowed down, as was to be expected in view of the increasingly full utilisation of resources. The policies pursued to moderate demand, particularly in the United States, continued to be flexibly adapted to circumstances; although pessimistic forecasts were made in certain quarters, there was no recession, the decline in some sectors having been offset by advances in others.

Two new developments which occurred during the year call for special attention and, in some cases, for resolute action. The first was a regrettable widening of the disparity between gains in terms of real value and nominal increases as a result of the rise in prices, which became a general phenomenon. This was not the direct consequence of political events, for difficulties created by the Suez crisis were of a temporary nature and, indeed, far less serious than might have been feared. While raw-material prices on the world markets, by the spring of 1957, were back to approximately the levels reached a year earlier, there was everywhere a rise in domestic wholesale prices and in the cost of living, which, though admittedly moderate, in many countries came on top of the price increases in preceding years. The fact that nowadays, even in the countries with the soundest currencies, a distinction is made as a matter of course between nominal and real increases in income is a sufficiently clear indication of the awareness of an inflationary pressure which constitutes an undeniable threat to the growth of savings and thus, in the longer run, to economic progress.

The second development was the aggravation, particularly in Europe, of balance-of-payments problems. Large purchases were made in the United States as a result both of the Suez crisis and of the very intensity of the European boom. But while this increase in imports from the United States raises certain problems, there was not this time any general "dollar shortage". On the contrary, western Europe's monetary reserves were further strengthened — but the divergent tendencies in individual countries increased to a dangerous extent. Effective and carefully co-ordinated action to meet this situation is necessary and in some cases urgent. It would be regrettable if, owing to failure to act in good time and in the right way, these fresh payments disequilibria were to jeopardise the steady progress made in recent years. For real and important progress has indeed been made. The currencies of a number of western European countries are now transferable over a wide area and are in practice convertible into dollars (at least for non-residents) at quotations generally close to the official rates. With few exceptions, the measures of trade liberalisation, which the Organisation for European Economic Co-operation has largely helped to bring about, have been maintained or further extended.

Plans for a "common market" and a "free-trade area" are the topic of the day. Sometimes the fear has been expressed that these plans might lower the barriers to freer trade inside Europe only at the cost of raising those between Europe and the rest of the world. Though not yet completely overcome, this danger is at all events more and more clearly understood and is being combated, particularly in countries which have, quite rightly, strengthened their own competitive power by allowing a large measure of foreign competition.

What prevents the progress made so far from being decisive is its incomplete and contingent nature. Measures of liberalisation are taken but particular products are excluded; frontiers are opened but rights are reserved to close them again. Even the most real achievements do not strike the imagination, for they are smothered beneath a mass of complex provisions which, besides allowing fortunes to be made by the astute, maintain the atmosphere of arbitrary control. In order to put an end to the present paradoxical situation, in which spectacular technical progress contrasts with the inadequacy of a system of international payments far behind the times, the public must be given an insight into monetary realities — and fallacies such as the association of economic progress with "mild inflation" must be vigorously challenged.

A chapter of this Report has been devoted to a special analysis of the problems relating to the formation of savings and the growth of investment. The conclusions to be drawn from this study reinforce the impression, constantly becoming stronger, that the problem of saving dominates modern economic life — and this is as true whether it be a question of further stages in the progress of the most advanced countries or of the future of regions still in course of development. There is not, as is often claimed, any necessary conflict between long-term progress based on a high level of investment and the short-term task of checking a rise in prices and restoring equilibrium in the balance of payments. It is only when, owing to failure to take sufficiently prompt or energetic action, the economic situation takes a dramatic turn for the worse that it may prove necessary to resort to rather drastic measures which, while safeguarding the future, are liable to make present conditions temporarily more difficult. That is why it is so important that, in all countries, not only the responsible authorities but also enlightened public opinion should be constantly aware of the real problems involved and be ready to react promptly. The monetary authorities certainly do not lack technical instruments, and the experience of recent years has shown clearly enough that the oldest established of these, when resolutely employed, are by no means the least effective. But there are limits to what these instruments can do, unless they are backed by an appropriate overall policy, and this, in turn, needs to be understood and supported by all sections of the population. It is obvious, for one thing, that a matter of decisive importance for the effectiveness of monetary policy proper is the state of the public finances. Similarly, the volume of a country's total savings, which are the basis of its future development, is largely dependent on whether private savings are reinforced by a surplus or swallowed up by a deficit in the public sector.

Certain other points, though they are of primary importance, are often disregarded by the public and even by those in responsible positions. The first is connected with an aspect of productivity which is often overlooked. It is true that productivity is dependent to a great extent on the rate of investment. But, apart from physical investments, which absorb large amounts of capital, there are certain measures of rationalisation concerning the allocation of resources and the rapid adaptation of production to demand which may prove no less profitable. The western economies continue to make use, in greater or lesser degree, of subsidies, protective measures and other forms of arbitrary price distortion dictated by short-term political considerations but fundamentally uneconomic as regards their effects on the long-term utilisation of resources. In the centrally-planned economies of the east, the unwieldy bureaucratic machinery and inflexible plans constitute a burden of which these countries are increasingly conscious. The serious handicap represented by all these uneconomic measures neutralises to a large extent the positive effects of technical progress; their investigation and systematic reduction would in many countries be the least costly but perhaps most profitable form of "investment".

A second matter, regarding which a large measure of public consent needs to be obtained, concerns the use made of the fruits of technical progress. Since the beginning of the industrial era, such progress has, in the more advanced countries, helped to make possible the accumulation of the enormous amounts of capital required for investment and to raise the level of personal incomes. It has brought this about, however, not only by increasing the nominal incomes of the most powerful or best organised sections of the community but also by making available to the population as a whole, including those groups whose interests are less strongly defended, mass consumer goods at increasingly reasonable prices. For some time now the rise in nominal incomes of the most highly organised sections of the population has tended more and more to absorb or even to exceed the margin created by technical progress. The utilisation of this progress, at least in part, to bring about a deliberate lowering of the prices of those goods which, thanks to the new techniques, can be manufactured more efficiently and more cheaply is, in addition to being a social necessity, a fundamental condition for any firmly-based economic development. For such a lowering of individual prices can play an important part in counteracting the price-raising forces generated by economic expansion itself, especially in periods of full employment. Together with the appropriate monetary and budgetary policies, it is one of the most effective contributions which can be made to preventing the progressive deterioration of the currency and constitutes an essential part of the delicate mechanism responsible for the formation of an ample flow of savings, the achievement of which is undoubtedly, and to an ever-increasing extent, the problem of our time.

Respectfully submitted,

ROGER AUBOIN
General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1957

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	513,015,693	23.5
Cash on hand and on sight account with banks	56,877,143	2.6
Redisable bills and acceptances		
Commercial bills and bankers' acceptances	60,746,981	2.8
Treasury bills	<u>635,313,322</u>	29.1
	696,060,303	
Sundry bills cashable on demand	23,672,046	1.1
Time deposits and advances		
Gold		
Not exceeding 3 months	22,573,941	1.0
Between 6 and 9 months	12,849,516	0.6
Currencies		
Not exceeding 3 months	16,146,120	0.7
Between 3 and 6 months	<u>94,920,060</u>	4.4
	146,489,637	
Other bills and securities		
Gold		
Not exceeding 3 months	136,558,301	6.3
Between 3 and 6 months	16,760,301	0.8
Between 6 and 9 months	15,475,463	0.7
Currencies		
Not exceeding 3 months	385,876,908	17.7
Between 3 and 6 months	80,280,701	3.7
Over 1 year	<u>38,871,559</u>	1.8
	673,823,233	
Miscellaneous assets	2,774,021	0.1
Buildings and equipment	1	0.0
Own funds employed in execution of the Hague Agreements of 1930		
for investment in Germany (see below)	<u>68,291,223</u>	<u>3.1</u>
	<u>2,181,003,300</u>	<u>100</u>
Execution of Hague		
Funds invested in Germany (see Note 2)		
Claims on Reichsbank and Golddiskontbank; bills of Golddiskontbank and Railway Administration and bonds of Postal Administration (matured)	221,019,558	
German Treasury bills and bonds (matured)	<u>76,181,040</u>	
	<u>297,200,598</u>	
MEMORANDUM ACCOUNTS		
a. Forward gold operations —		
Net balance: gold receivable (currencies to be delivered)	154,295,138	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	738,258,320	
Bank balances	35,287,902	
Bills and other securities	513,370,283	

**TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF THE BANK FOR INTERNATIONAL SETTLEMENTS, BASLE.**

In conformity with Article 52 of the Bank's Statutes, we have examined the books and accounts of the and explanations we have required. Subject to the value of the funds invested in Germany, we report that in drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of above-described gold franc equivalents of the currencies concerned.

ZURICH, 2nd May 1957.

AS AT 31st MARCH 1957

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

		%
Capital		
Authorised and issued 200,000 shares, each of 2,500 gold francs	<u>500,000,000</u>	
of which 25% paid up	125,000,000	5.7
Reserves		
Legal Reserve Fund	7,909,584	
General Reserve Fund	<u>13,342,650</u>	
Deposits (gold)	21,252,214	1.0
Central Banks:		
Between 3 and 6 months	97,446,580	4.5
Not exceeding 3 months	295,443,379	13.5
Sight	77,474,570	3.6
Other depositors:		
Between 3 and 6 months	3,568,589	0.2
Not exceeding 3 months	147,032,414	6.7
Sight	<u>5,787,638</u>	0.3
Deposits (currencies)	626,753,170	
Central Banks:		
Over 1 year	57,534,805	2.6
Between 9 and 12 months	1,427,950	0.1
Between 6 and 9 months	16,392,679	0.7
Between 3 and 6 months	56,231,820	2.6
Not exceeding 3 months	907,860,600	41.6
Sight	32,055,588	1.5
Other depositors:		
Between 3 and 6 months	153,307,243	7.0
Not exceeding 3 months	21,226,320	1.0
Sight	<u>3,388,935</u>	0.2
	1,249,425,840	
Miscellaneous	12,006,699	0.5
Profit and Loss Account		
Balance brought forward from the financial year ended 31st March 1956	4,852,390	
Profit for the financial year ended 31st March 1957	<u>8,212,967</u>	
	13,065,377	0.6
Provision for contingencies	<u>133,500,000</u>	6.1
	<u>2,181,003,300</u>	<u>100</u>

Agreements of 1930

Long-term deposits

Annuity Trust Account Deposits of Creditor Governments (see Note 3) ...	152,606,250
German Government Deposit	<u>76,303,125</u>

Own funds employed in execution of the Agreements (see above) ...

228,909,375
68,291,223
297,200,598

NOTE 1 — For Balance Sheet purposes, the currency amounts of the assets and liabilities have been converted into gold francs on the basis of quoted or official rates of exchange or in accordance with special agreements applicable to the respective currencies.

NOTE 2 — Under an Arrangement dated 9th January 1953 between the Government of the Federal Republic of Germany and the Bank, which forms a part of the Agreement on German External Debts of 27th February 1953, it has been agreed that the Bank will not demand prior to 1st April 1956 the reimbursement of the principal of its investments in Germany described above, including arrears of interest thereon at 31st December 1952.

NOTE 3 — The Bank has received confirmation from Governments whose deposits amount to the equivalent of gold francs 149,920,360 that they cannot demand from the Bank, in respect of their claims on the Annuity Trust Account, the transfer of amounts greater than those of which the Bank can itself obtain reimbursement and transfer by Germany in currencies approved by the Bank.

Bank for the financial year ended 31st March 1957, and we report that we have obtained all the information our opinion the above Balance Sheet and Memorandum accounts, together with the Notes thereon, are properly our information and the explanations given to us and as shown by the books of the Bank, as expressed in the

PRICE WATERHOUSE & CO.

PROFIT AND LOSS ACCOUNT
for the financial year ended 31st March 1957

		Gold francs
Net income from the use of the Bank's capital and the deposits entrusted to it		19,536,479
Commission earned as Trustee, etc.		<u>679,568</u>
		20,216,047
Costs of administration:		
Board of Directors — fees and travelling expenses ...	202,792	
Executives and staff — salaries, pension contributions and travelling expenses	3,624,955	
Rent, insurance, heating, electricity	43,894	
Renewals and repairs of buildings and equipment ...	82,522	
Consumable office supplies, books, publications, printing	300,111	
Telephone, telegraph and postage	124,385	
Experts fees (auditors, interpreters, economists, etc.)	33,724	
Cantonal taxation	35,622	
Miscellaneous	<u>119,934</u>	
	4,767,939	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	<u>566,354</u>	<u>4,201,585</u>
		16,014,462
The Board of Directors has decided that it is necessary to transfer		
to the provision for deprecation on buildings... ..	750,043	
to the provision for contingencies	<u>7,051,432</u>	<u>7,801,475</u>
NET PROFIT for the financial year ended 31st March 1957		8,212,987
Transfer to the Legal Reserve Fund — 5% of 8,212,987		<u>410,649</u>
		7,802,338
Balance brought forward from the preceding year		<u>4,852,390</u>
		12,654,728
Dividend of gold francs 31.50 per share, as recommended by the Board of Directors to the Annual General Meeting called for 3rd June 1957		<u>6,300,000</u>
Balance carried forward		<u>6,354,728</u>

BOARD OF DIRECTORS

Maurice Frère, Brussels	Chairman of the Board of Directors, President of the Bank
Sir Otto Niemeyer, London	Vice-Chairman
Wilfrid Baumgartner, Paris	
Dr Rudolf Brinckmann, Hamburg	
Cameron F. Cobbold, London	
Henri Deroy, Paris	
Dr M. W. Holtrop, Amsterdam	
Dr Donato Menichella, Rome	
Dr W. Schwegler, Zurich	
Prof. P. Stoppani, Rome	
Jean Van Nieuwenhuysse, Brussels	
Dr Wilhelm Vocke, Frankfurt a/M.	
Per Åsbrink, Stockholm	

Alternates

Pierre Calvet, Paris, or	
Jean Bolgert, Paris	
Dr Paride Formentini, Rome	
J. M. Stevens, London, or	
J. St. J. Rootham, London	
Cecil de Strycker, Brussels	

EXECUTIVE OFFICERS

Roger Auboin	General Manager, Alternate of the President
Baron van Zeeland	First Manager, Head of Banking Department
Frederick G. Conolly	Manager
Dr Alberto Ferrari	Secretary General, Head of Department
Dr H. H. Mandel	Manager

Dr Sjoerd G. Binnerts	Assistant Manager
D. H. Macdonald	Assistant Manager
Georges Royot	Assistant Manager
Henri Guisan	Legal Adviser
Malcolm Parker	Administrative Sub-Manager
Dr Antonio Rainoni	Research Sub-Manager