

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-EIGHTH ANNUAL REPORT

1st APRIL 1957 — 31st MARCH 1958

BASLE

9th June 1958

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TWENTY-EIGHTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle on 9th June 1958.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-eighth financial year, which began on 1st April 1957 and ended on 31st March 1958. Details of the results of the year's business operations are given in Chapter IX, together with a review of the current activities of the Bank and an analysis of the balance sheet as at 31st March 1958. The year was characterised by a stabilisation of the resources at the disposal of the Bank at the high level reached the previous year and by a further increase in the volume of its operations.

The financial year closed with a surplus of 19,317,738 gold francs, against 16,014,462 gold francs for the previous year. After deduction of 10,000,000 gold francs transferred to the provision for contingencies, the net profit amounted to 9,317,738 gold francs, compared with 8,212,987 for the preceding year.

The Board of Directors recommends that the present General Meeting should declare a dividend of 6 per cent., equal to 37.50 gold francs per share, payable in Swiss francs in the amount of 53.60 Swiss francs per share, involving the distribution of 7,500,000 gold francs.

A general survey of monetary and economic developments in 1957 and the early part of 1958 is given in Chapter I of this Report. Chapter II is devoted to an analysis of the flow of savings and of capital-market transactions in various western European countries and the United States. The succeeding chapters review recent developments in the fields of money and credit, world-market and domestic prices, foreign trade and payments, gold production and monetary reserves, and foreign exchange rates and regulations.

Chapter VIII deals with the operations of the European Payments Union, in connection with which the Bank acts as Agent for the Organisation for European Economic Co-operation. Chapter IX, in addition to dealing with the current activities of the Bank, contains also an account of the functions performed by the Bank on behalf of the High Authority of the European Coal and Steel Community and as Trustee and 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, the International Monetary Fund and, recently, the newly-established European Investment Bank.

I. Survey of Monetary and Economic Developments.

In the years 1954-56 western Europe, the United States and Canada experienced an investment boom, which, however, began to slacken in 1956. The tapering-off of the boom continued in the first part of 1957, so that a smooth transition to a phase of adjustment seemed to be in progress. But although the rate of investment slowed down, both the European and the U.S. economies were still subject to strains, which became manifest during the summer months and prompted fresh remedial action, sometimes of an emergency nature. In the United States, the growth of investment and of the wage bill had previously been partly financed by credit creation or the activation of existing liquidity reserves (as was shown by an increase — sustained for three years — in the income velocity of money). As a result of a tight monetary policy, the expansion of the money supply stopped in 1957, and the tension existing in a system which had by then reached the limit of its elasticity found expression in a feverish demand for credit and in peak interest rates during the summer months. At about this time the imbalance in European foreign payments was made acute by the expectation of an appreciation of the German mark and a depreciation of certain other currencies and by the capital movements which this induced. While the French franc was in fact depreciated in August, the flight from the pound, combined with the rapid utilisation of sterling balances by deficit countries in the sterling area, caused a further depletion of the United Kingdom's gold and dollar holdings.

The perverse capital movements resulting from the expectation of an alteration in the exchange parities of important currencies were reversed by the raising, in September, of the British discount rate to 7 per cent.; by the common determination of the major countries, expressed during the meeting of the International Monetary Fund, to maintain the existing structure of exchange rates; and also by the readiness which individual governments and international agencies showed at this juncture to co-operate in the fight against inflation and the defence of existing parities. However, the new situation which emerged from the events of the summer months was still in some ways unsatisfactory. While the pressure on the pound was relieved, the fundamental imbalance in the foreign payments of France and Germany persisted. And in the United States and Canada a recession developed during the last quarter of 1957 and the first months of the current year.

No generalisation can be made about the state of production and domestic inflation in Europe in the period under review. During the first three quarters of 1957, monetary policy everywhere was aimed at containing inflation, but towards the end of the year, when it became clear that the boom had come to an end, the monetary authorities in a number of countries loosened the reins. Although trends of production still differed from country to country in the latter phase, the economic climate everywhere was

certainly much more subdued early in 1958 than it had been a year before. Redundancy of productive capacity is becoming apparent in certain branches of industry, while the agricultural sector continues to be characterised by insufficient adaptation of production to the changing pattern of demand and the resultant coexistence of surpluses and scarcities of individual products.

In the eastern European countries, economic development, at least in terms of industrial production, was more uniform than in the West. The rate of growth from 1956 to 1957 in the more important eastern European countries ranged, with a few exceptions, from 8 to 10 per cent., the latter figure being reached by the U.S.S.R., whereas in the West there was no increase at all in the United States and a rise of 9.7 per cent. in France, the rates of expansion of the other major countries having varied widely between these limits. Cereal crops, which underwent little change in western Europe in 1957 but were much smaller in the United States and Canada than they had been the previous year, declined in the U.S.S.R. owing to a severe drought; in the other eastern countries they were considerably greater than the 1956 crops. Some of the eastern European countries, in spite of their different economic organisation, have been confronted by problems similar to those of the West: inflation, balance-of-payments difficulties and even unemployment. In most of these countries the increase in money incomes in 1957 resulted in pressure on the market for consumer goods; and although no official price increases of any importance were introduced, except in Poland and Hungary, it is known that disguised price rises have occurred in most eastern European countries. Poland, Hungary and Roumania were faced with balance-of-payments difficulties, which, in the case of Poland and Hungary, were overcome by means of foreign credits; these were supplied mainly by the U.S.S.R., but funds were also made available to Poland by the United States and to Hungary by other eastern European countries. The unemployment problem caused growing concern, particularly in Poland, but also in Hungary, Roumania and Bulgaria.

Of much greater importance, however, are the changes in economic organisation which occurred in the East in the period under review. In the U.S.S.R., the control of industrial production was — with some exceptions — decentralised and transferred to 106 new regional economic councils. In the agricultural sector, the machine and tractor stations are, in future, to sell tractors and machines to collective farms and are themselves to be confined to repair work. In other countries, such as eastern Germany and Czechoslovakia, the position of these stations has actually been strengthened. Nor is there any uniformity in agricultural policy in other respects. Whereas in most eastern European countries farm collectivisation has been pushed ahead by the authorities, in Poland the opposite has been the case. Another interesting development in the East is the tendency in nearly all these countries — most noticeably in Poland — to make more use of the price system than hitherto.

* * *

Among the countries of the West the United States shows the clearest pattern of development in the period under review: it is the pattern of the last stage of a boom and the declining phase of a business cycle. Since economic conditions in that country are likely to affect what happens in the rest of the world, it is necessary to look closely at the American scene.

In a growing economy the continuously expanding supply of commodities resulting from past investments and from the current increase in the labour force can only be marketed smoothly if aggregate expenditure — made up of the four components of consumption, domestic and foreign investment, and government expenditure — expands *pari passu*. The most volatile among these expenditure streams is, as a rule, investment. This may cease to grow or may actually decline for a number of reasons, such as scarcity of funds, a more pessimistic outlook on the part of entrepreneurs regarding future developments, over-expansion in the past connected with a change in the pattern of consumer expenditure (e.g. a relative decline in the demand of consumers for products such as motor-cars, produced by very capital-intensive methods, in favour of services or of goods whose production is less capital-intensive), or as a result of a combination of these factors. In any case, if there is little or no growth in total expenditure, the investments of the past are bound to create surplus capacity. The next phase is then quite possibly an absolute decline in investment and a recession.

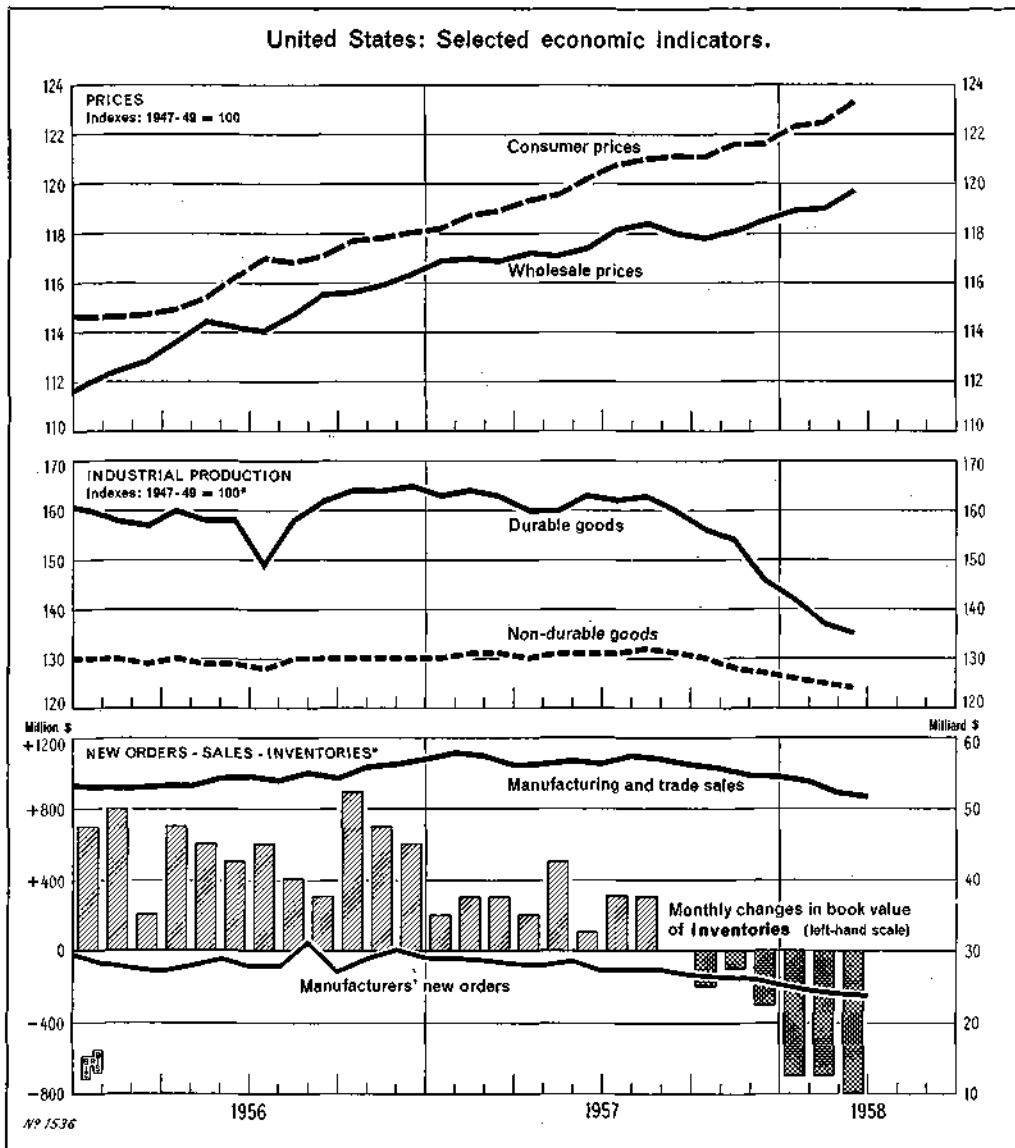
The gross national product statistics show that in 1957, as in previous recession years, it was domestic investment that was responsible first for the slowing-down of aggregate expenditure and then, in the last quarter of the year, for its actual decline. Whereas, in the first three quarters, private consumption, government expenditure and net foreign investment were still rising, fixed investment practically ceased to grow and investment in inventories, though still positive, was smaller than in the last quarter of 1956. The deceleration in the growth of aggregate demand caused by this slackening of investment activity led, in the last quarter of 1957, to an actual liquidation of inventories and a decline in total expenditure, and in the first quarter of 1958 this process was greatly speeded up by a fall in fixed investment and a further substantial unloading of inventories.

United States: Gross national product.

Year or quarter	Gross domestic private investment			Con- sumption	Govern- ment expendi- ture	Net foreign invest- ment	Total
	Fixed	Inventories	Total				
at annual rates (seasonally adjusted), in milliards of dollars							
1956	61.3	4.6	65.9	267.2	80.2	1.4	414.7
1957	63.6	0.8	64.4	280.4	86.4	3.2	434.4
1956 4th quarter.	63.4	5.1	68.5	272.3	82.8	2.4	426.0
1957 1st "	63.6	0.0	63.6	276.7	85.6	4.1	429.9
2nd "	63.3	2.9	66.2	278.9	86.9	3.5	435.5
3rd "	63.5	3.0	66.5	283.6	86.7	3.2	440.0
4th "	64.0	-2.7	61.3	282.4	87.0	2.0	432.6
1958 1st "	60.8	-9.0	51.8	281.2	87.5	1.5	422.0

A more detailed analysis of investment in inventories will throw further light on the chain of events which finally led to the downturn. The decline in additions to inventories by manufacturing industry and trade was one of the first signs that the expansion of economic activity might soon come to a halt. After some oscillations, inventory investment began to fall, though still not uninterruptedly, in November 1956, i.e. a month before the onset of the decline in the order books of manufacturing industry and three months before the slackening of production of durable goods.

The slowing-down of inventory accumulation took place in the face of a continued growth in sales — the ratio of inventories to monthly sales



fell from 157.1 per cent. in October 1956 to 156.3 per cent. in December. The decline in inventory accumulation was most likely attributable to the rise in the cost of bank credit and the growing difficulty of obtaining such credit. But the influence of these two factors must have been overshadowed, from the beginning of 1957 onwards, by the effect of the absence of any increase in sales. Between January and September 1957 (the month in which the unloading of inventories actually began), sales were fairly steady and there seemed to be no need for further additions to inventories during the rest of the year. Moreover, the fall in the prices of important raw materials was a further reason for going slow in accumulating these materials.

Nevertheless, as already stated, inventories — to a large extent undoubtedly of the "involuntary" type, as in the motor-car industry — continued to rise in the first eight months of 1957, although at a much reduced rate. As a consequence, the value ratio of inventories to monthly sales rose from 156.3 per cent. in December 1956 to 162.2 per cent. in September 1957. It was at this point that inventories actually began to be unloaded. But sales then also began to fall; and as they fell proportionally more, the ratio of inventories to sales rose further to 166.4 per cent. in December 1957, and to 171.5 in March 1958.

The lack of growth in fixed investment during 1957 was in some very important lines undoubtedly caused by the over-expansion of investment in previous years. This was true in the motor-car industry, where sales in 1957, just as in 1956, were most unsatisfactory. Partly owing to repercussions of developments in that industry, the iron and steel industry, too, was left with a surplus of capacity (it was working at only 80 per cent. of capacity by the middle of the year). In other lines scarcity of funds in relation to the expanding demand for investment purposes also played a part in the slowing-down of investment. For a while business was able to draw on its own liquid assets, but this source was bound to dry up. And later, when incoming orders slackened off and sales ceased to expand, the desire to invest must have been adversely affected. A large number of company reports for 1957 indicate that investment projects were in fact cut down. Nevertheless, fixed investment did not actually decline before the first quarter of 1958, largely owing to work on projects already in course of execution.

Consumer expenditure continued to rise through the first three quarters of 1957, thus exerting a stabilising influence on the level of economic activity. The increase between the last quarter of 1956 and the third quarter of 1957 amounted to 4.1 per cent. in current dollars, but only to 1.7 per cent. in real terms. Consumer expenditure on durable goods did not participate in the rise at all. In real terms, such expenditure declined after the first quarter. The growth of consumer expenditure was concentrated in the field of non-durable goods and services. The seasonally adjusted index of production of consumer durables accordingly remained practically unchanged during the

first three quarters of 1957; it declined considerably in the fourth quarter of that year and even more in the first four months of 1958. The index of production of non-durable goods, on the other hand, did not fully reflect the rise in expenditure on non-durables and services in the first three quarters of 1957. This discrepancy was perhaps partly the result of the decline in inventory accumulation, but it was predominantly due to the increasing importance of services in the expenditure of consumers.

Consumption and production of non-durable consumer goods as well as total consumer expenditure (including expenditure on services) finally declined, like investments, in the last quarter, thus adding to the depressing effect caused by the unloading of inventories. The fall in consumer expenditure was, of course, largely the result of the fall in the disposable income of consumers, which, in turn, might be mainly attributable to the decline in investments.

Government expenditure, which after a rise in the first quarter of 1957 remained fairly stable throughout the rest of the year, did nothing to counteract these depressing tendencies; and a further decline in net foreign investment aggravated them. As a result of all these forces total industrial production (adjusted) had fallen by the end of 1957 to 8.2 per cent. below the peak reached in December 1956. Surplus capacity had developed in many sectors and the capacity of the steel industry was employed to the extent of only 66 per cent. in December 1957. According to a survey by the McGraw-Hill Publishing Company, the margin of unutilised capacity in all manufacturing industries averaged about 18 per cent. as early as September 1957, and this margin appears to have widened to about 25 per cent. by the end of 1957. Unemployment, which had been around 2.5 million at the end of 1956, had risen to 3.4 million by the end of December 1957. The first quarter of 1958 saw a further deterioration. By the end of March industrial production was down by another 5.2 per cent., steel capacity was employed to the extent of only 50 per cent. and unemployment had risen to 5.2 million.

As indicated above, the shortage of savings in relation to demand for investment purposes was in some, though not all, lines of production one of the factors which prevented further expansion of investment in 1957. This shortage of funds was not reflected in security issues, which provided new money for investment purposes in 1957 to the extent of \$11.8 milliard, against only \$9.7 milliard in 1956. But it was clearly revealed by three other factors. First, the additions to commercial and industrial loans granted by all weekly-reporting member banks amounted in the first three quarters of 1957 to only \$1.4 milliard, as against \$3.1 milliard in the first three quarters of 1956. Secondly, corporations (as in 1956) drew down their own liquid assets (cash and government securities) by \$4 milliard in the first three quarters of 1957. The third factor indicating a shortage of funds in relation to demand was the rise in short and long-term interest rates. In pursuance of its anti-inflationary policy, the Federal Reserve System had since April 1955

raised the discount rate on several occasions; the last increase, to 3½ per cent. (in making which the System followed the market), took place in August 1957. Short and long-term rates rose sharply, and in October 1957 the rate on long-term government securities stood at a higher level than it had done for decades (3.73 per cent.). It was only in the last quarter of 1957 that the rates came down, as a result both of slackening demand and of more ample supply in the credit market following a loosening of the reins by the Federal Reserve System, which lowered the discount rate in November 1957, and again in January, March and April 1958 (when it stood at 1¾ per cent.).

While the prices of fixed-interest-bearing securities fell with the rise in long-term rates during the first three quarters of 1957, stock prices rose between February and July 1957. By the end of that period they had completely regained the ground lost between August 1956 and February 1957. In June the dividend/price ratio for common stocks (4.04 per cent.) began to fall below the average yield on corporate bonds (4.15 per cent.). It was at this juncture that the rise in the long-term rate began to affect stock prices adversely. The Security and Exchange Commission's index of stock prices (1939 = 100) fell from 362 in July 1957 to 298 in December 1957, but rose slightly again to 312 in April 1958. The fall in stock prices undoubtedly had an effect on the behaviour of consumers, who became more reluctant to spend and thus contributed to the recession in the last quarter of 1957.

Most economic indicators behaved in 1957 as they usually do at the top of a boom and at the beginning of a recession: first, there was the decline in inventory accumulation setting in almost simultaneously with the fall in new orders; then, a few months later, the beginning of the downward movement in the production of durable goods, followed, with a considerable time-lag, by the fall in production of non-durables; then came the rise in interest rates up to the date when the overall recession set in, and the fall in stock prices once the long-term rate had risen above the yields on stocks. This whole sequence of events conforms reasonably well to the pattern of the respective stages in a typical business cycle. There was, however, one economic indicator which did not behave according to the usual pattern. Prices — both consumer and wholesale — were still rising in March 1958.

United States: Price indexes.

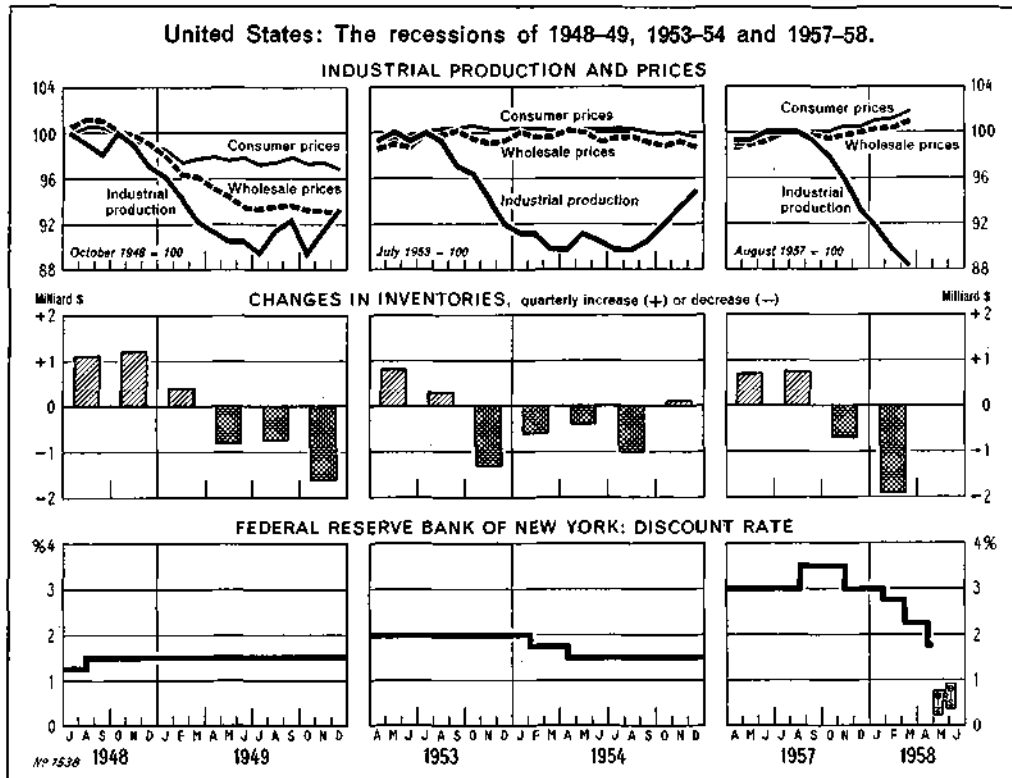
Period	Basic commodities (Moody's Index)	Wholesale prices	Consumer prices
	Index: 1955 = 100		
1956 March	101.0	101.9	100.2
June	102.4	103.2	101.5
September	105.2	104.3	102.3
December	108.7	105.1	103.1
1957 March	101.7	105.6	103.8
June	105.0	106.1	105.0
September	100.9	106.6	105.8
December	97.0	107.0	106.2
1958 March	98.5	108.1	107.7

This continuous upward movement took place although the prices of important internationally traded raw materials and foodstuffs had been falling since the end of the Suez crisis. The reason must be sought at least partly in the continued increase in wage costs in 1957. Gross hourly earnings, excluding overtime, in manufacturing industry were, on an average, 3.5 per cent. higher at the end of 1957 than at the end of 1956 and hourly earnings, including overtime, 2.4 per cent. higher, while consumer prices rose in the same period by over 3 per cent. (owing largely to the increase in agricultural prices and in the prices of services) and wholesale prices by 1.9 per cent. The available evidence suggests that productivity per man-hour increased less than wages, so that this factor did not compensate for the rise in money wages. But this wage movement cannot be the whole explanation. One would have expected that competition in a weakening market would have brought down prices at the expense of profits. Total profits after taxes were, however, just as high in the first three quarters of 1957 as they had been in the corresponding period of 1956 (\$20.8 milliard against \$20.6 milliard, at annual rates) and so were profits in manufacturing industry alone (\$11.9 milliard in both periods). In the last quarter total profits fell to about \$18 milliard; but this fall was probably attributable more to the decline in output than to a reduction in the unit profit margin.

It seems, then, that business preferred to keep prices unchanged, or even to raise them together with wage costs, rather than stimulate demand by letting prices fall, thus maintaining output as far as possible — with the result that there developed the surprising phenomenon of a recession with rising prices. In the early part of 1958, however, the pressure of the fall in demand began to make itself felt, and in March price declines took place in almost all the major non-agricultural commodity groups.

What happened in the United States in 1957 clearly shows the difficulties with which the monetary authorities are confronted under modern conditions. It is their duty to maintain the purchasing power of the national unit of account. They can attain this objective only by preventing an excessive expansion of bank credit, which in a boom period tends to supplement savings that are insufficient to satisfy the demand for funds. Unless the monetary authorities fail in their duty by permitting an unlimited expansion of credit, the tendency of wage-earners to ask for money wages in excess of productivity and the reluctance of employers to reduce their profits per unit of output will necessarily have an adverse effect on production, until the decline in sales and the growth in unemployment finally force business to sacrifice some of its profits and labour to moderate its wage demands.

Moreover, an "easy-money policy" might — at the expense of further inflation — have achieved no more than a postponement of the recession. The pursuit of such a policy in 1957 could have done nothing to offset the effects of surplus capacity which had come into being in some sectors in the past partly as a result of a change in the pattern of consumer expenditure. And it is almost certain that other industries, in which the propensity



to invest was for a while still strong, would sooner or later have felt the repercussions of the decline in activity in the first group. Easy credit is not a safeguard against a recession.

In order to see the recession of 1957-58 in its proper perspective it is useful to compare it with the previous recessions of 1948-49 and 1953-54.

In the first of these recessions industrial production (on a seasonally adjusted basis) fell, from the peak in October 1948 to the trough one year later, by 10 per cent.; the fall was exactly the same in the second recession: 10 per cent. between the peak in May 1953 and the trough in August 1954. In February 1958 industrial production was already 11 per cent. below the peak of December 1956 and by April 1958 the decline amounted to 13.7 per cent., so that, measured in terms of industrial production, the downturn was more severe than it had been in the two previous recessions.

United States: Change in gross national product.

Period	Overall change in current dollars	Change due to price factor	Change due to quantity factor
	at annual rates, in millions of dollars		
4th quarter 1948 to 4th quarter 1949	- 8.5	- 5.7	- 2.8
2nd quarter 1953 to 2nd quarter 1954	- 6.7	+ 1.1	- 9.8
1st quarter 1957 to 1st quarter 1958	- 7.9	+ 10.7	- 18.6

Prices behaved very differently in the three recessions. They fell in the first one, remained roughly stable in the second and rose in the third (see graph). There is probably no better testimony to the growing strength of the inflationary forces in the modern world than these changes in the behaviour of prices in the three successive downturns.

The preceding table shows the respective parts played by the price and quantity factors in the overall change in the gross national product in the three recessions.

* * *

In France, Germany, Italy and the United Kingdom, which between them account for three-quarters of the combined national products of the O.E.E.C. countries, the value of output still increased in 1957, even in terms of constant prices: by 6.1 per cent. in France, 4.6 per cent. in Germany, 5.6 per cent. in Italy and 1.7 per cent. in the United Kingdom; and only in Germany was the rate of growth smaller than in the preceding year.

In the United Kingdom the share of domestic investment in the gross national product increased owing to a growth in inventories and a rise in fixed investment (in the latter category there was a decline in investment in residential construction in favour of more productive types of fixed investment), whereas the share of consumption, both public and private, fell. Gross national savings grew from 17.8 to 19.0 per cent. of the gross national product and exceeded domestic investment, the counterpart of this surplus having consisted of additions to claims on other countries (including the increase in gold reserves).

In France the share of domestic investment also increased in 1957, though only slightly, at the expense of consumption. But, as in 1956, gross national savings were again less than domestic investment (17.6 as against

Consumption and investment as a percentage of gross national product in selected countries.

Countries	Years	Consumption			Investment			Foreign balance
		Private	Public	Total	Fixed	Inventories	Total	
United Kingdom .	1955	66.8	16.8	83.6	14.9	1.7	16.6	- 0.2
	1956	65.3	16.9	82.2	15.1	1.2	16.3	1.5
	1957	64.6	16.4	81.0	15.6	1.9	17.5	1.5
France . . .	1955	67.4	13.9	81.3	17.5	0.7	18.2	0.5
	1956	68.2	14.6	83.0	18.1	1.1	19.2	- 2.2
	1957	67.8	14.6	82.4	18.9	0.8	19.7	- 2.1
Germany . .	1955	58.3	13.6	71.9	22.7	3.0	25.7	2.4
	1956	59.0	13.3	72.3	23.0	1.4	24.4	3.4
	1957	58.9	13.4	72.3	22.1	1.5	23.6	4.1
Italy	1955	71.3	7.8	79.1	21.2	1.5	22.7	- 1.8
	1956	71.2	8.0	79.2	21.8	0.8	22.6	- 1.8
	1957	70.1	7.9	78.0	22.7	0.5	23.2	- 1.2

19.7 per cent. of the total); and domestic investment was partly "financed" by a loss of gold and foreign exchange.

In Germany the ratio of domestic investment declined but at the same time the ratio of net foreign investment (including accumulation of gold reserves) increased. The ratio of the two together to the gross national product was the same as in 1956. The strong foreign demand for German goods made up for the slowing-down of domestic investment and thus helped to maintain aggregate demand for German commodities.

In Italy gross national savings covered a larger part of domestic investment than was the case in 1956 and the balance-of-payments deficit on current account (financed by foreign aid and foreign government contracts) was reduced.

Figures for the whole of 1957 are likely to conceal important developments that took place during the year. In order to follow these developments it is necessary to refer to the monthly movements of industrial production during 1957 and the first quarter of 1958, bearing in mind that the value of industrial production (including mining) amounts to only between roughly one-third and one-half of the total gross national product.

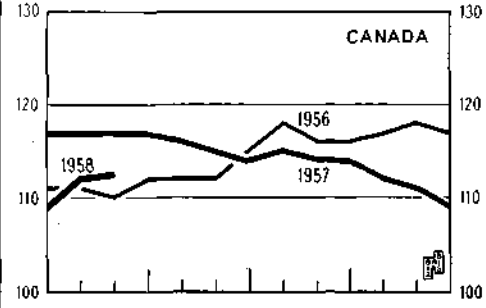
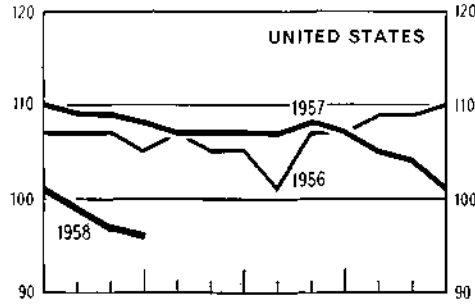
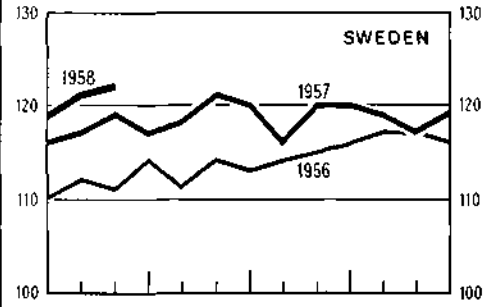
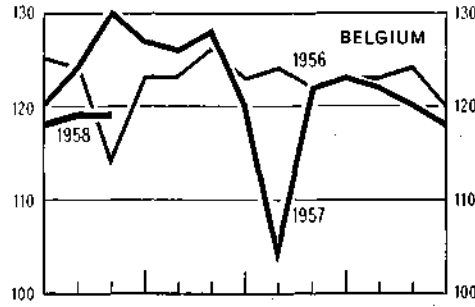
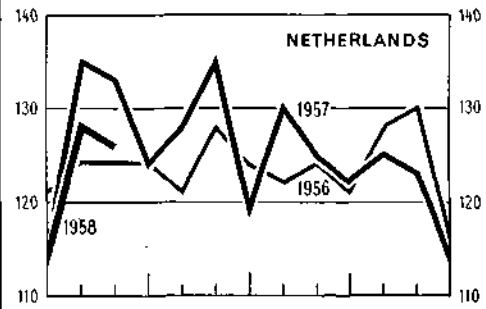
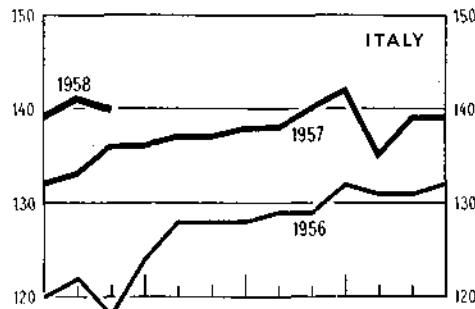
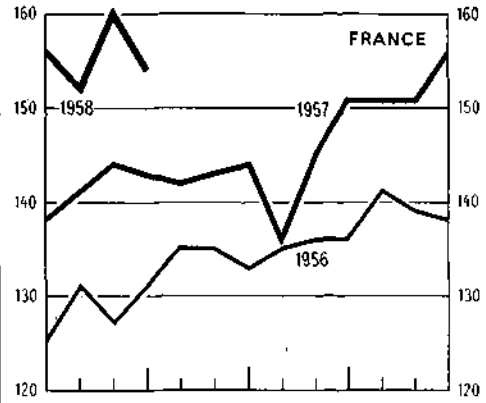
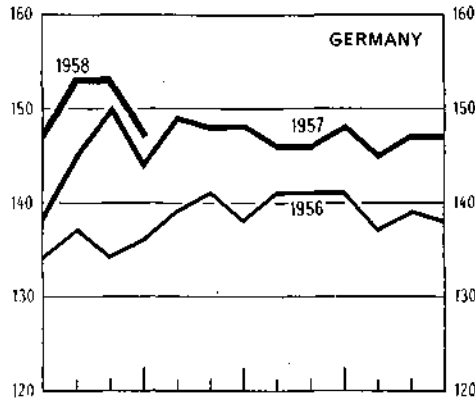
In all the countries shown in the table industrial output in 1957 as a whole still showed an increase over 1956; and in most of them the level of production in each of the first three quarters was above the level in the corresponding quarter of 1956 (the exceptions being Belgium and Canada in the third and Finland in the second and third quarters). But in the last quarter of 1957 and the first quarter of 1958 the level of production in the majority of the countries shown in the table was below that of the corresponding quarters of the preceding year. This was true of the United States,

Industrial production.

Countries	1957				1958
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Increase over the same quarter of the preceding year, in percentages					
Austria	4.3	6.4	5.5	6.4	6.9 *
Belgium	5.6	0.4	- 4.6	- 3.2	- 6.3 *
Denmark	9.1	8.4	2.1	- 1.2	- 1.5
Finland	32.3	- 3.4	- 3.9	- 7.0	- 8.4 *
France	10.9	7.2	5.5	9.4	10.3
Germany	8.1	6.0	3.5	5.5	3.2
Italy	11.0	8.5	8.3	4.4	2.1
Netherlands	5.6	2.7	2.7	- 2.1	- 4.8
Norway	4.6	3.9	4.2	- 0.2	- 4.0
Sweden	5.1	6.1	3.7	0.7	1.8 *
United Kingdom	0.7	1.2	2.4	1.4	0.2
United States	1.9	1.4	2.4	- 4.8	- 10.3
Canada	4.4	1.5	- 1.2	- 4.8	- 4.5 *

* January-February.

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



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Canada, Denmark, Finland, the Netherlands and Norway. In the other countries (Austria, France, Germany, Italy, Sweden and the United Kingdom) the level was higher.

Changes in unemployment (as a percentage of the labour force) in the various countries between the end of 1956 and the end of 1957 corresponded on the whole to the movement of production. Thus in Austria, France and Italy unemployment was non-existent (France) or fell (Austria and Italy). In the United Kingdom unemployment was stationary, and in Belgium, Norway, the Netherlands and the United States it rose. Germany is an exception to the rule. Although, on the basis of its performance in industrial production, the country should be classified with France, Italy and Austria, there was actually a rise in unemployment. The increase in production did not quite absorb the natural growth in the labour force plus the stream of refugees from the east.

Unemployment.

Countries	1955	End of 1956	1957	March 1957	March 1958
	as a percentage of the labour force ¹				
Austria	6.9	7.0	6.7	6.6	8.4
Belgium	5.6	4.4	4.8	4.2	5.3
France	0.2	0.1	0.1	0.1	0.1
Germany	5.7	5.7	6.3	3.7	5.7
Italy	10.4	9.9	9.3	9.4	9.6 ²
Netherlands	1.6	1.4	3.0	1.0	3.0
Norway	2.4	2.1	2.6	2.3	3.6 ²
Sweden	4.6	5.0	5.3	3.9 ²	.
United Kingdom	1.0	1.4	1.5	1.4	1.7
United States	3.6	4.1	5.0	4.3	7.7

¹ The figures in this table are not comparable as between countries.

² February.

In the countries where there was still overfull employment at the beginning of 1957, such change as there was in the labour-market situation may, however, have consisted mainly or entirely of a fall in the figure for unfilled vacancies. In the United Kingdom unfilled vacancies declined from 279,000 in December 1956 to 236,000 in December 1957 and 217,000 in March 1958. In the Netherlands they fell from 99,100 in December 1956 to 42,900 in December 1957. In Austria, Germany and Sweden there was hardly any change between the end of 1956 and the end of 1957.

The different rate of change in economic activity was in some of the countries strongly influenced by their balance-of-payments positions. In Germany and Italy the continuing high rate of expansion was accompanied by a surplus in the balance of payments, which in fact provided the liquidity required to maintain the expansion. In Germany the increase in liquidity was so great that the central bank had to absorb some of it by sales of open-market paper in order to prevent or lessen the inflationary effect which the excess of bank liquidity might otherwise have had. In both

countries the favourable balance-of-payments position enabled the authorities to abstain from tightening credit conditions (in Germany it was even possible to ease them), so that the expansion in economic activity was not hampered by lack of credit.

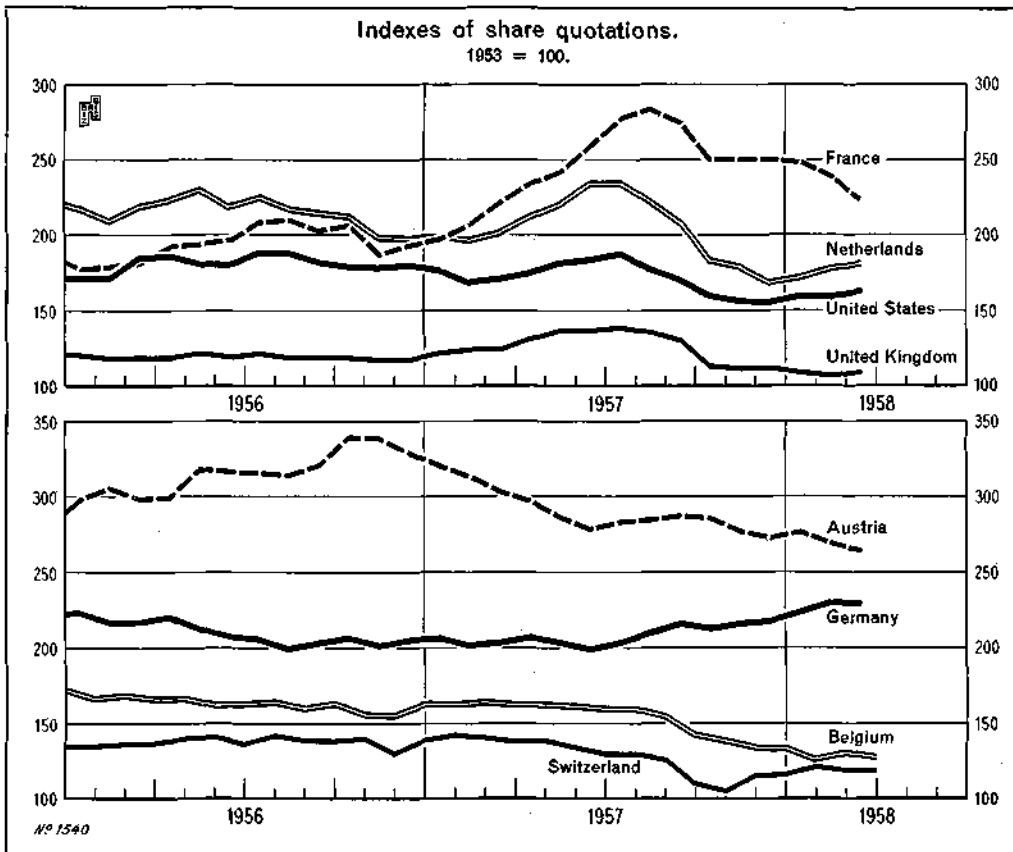
In France, on the other hand, the drain on the liquidity of the banking system resulting from a deficit in the balance of payments was more than offset by internal credit expansion in favour both of the government and of the private economy; and the boom was maintained at the cost of a heavy loss of foreign exchange reserves. During the second half of 1957 recourse had to be had to various credit restrictions, the deliberalisation of imports and a de facto devaluation of the franc. By the end of the year these measures had not yet slowed down economic activity nor had they removed the inflationary pressure. Only if inflation is effectively stopped in 1958 will the breathing-space provided by the foreign credits which France received at the beginning of the year allow it to undertake the necessary internal readjustment and improve its balance-of-payments position without this involving a drastic drop in total output.

In the United Kingdom the current balance-of-payments surplus for the year as a whole was practically offset by the deficit on capital account, so that there was little accumulation of gold and dollar reserves, the gain in the last quarter having merely sufficed to cancel out four-fifths of the heavy loss in the third quarter. The monetary authorities kept their foot on the brake, and even applied it harder. Owing to the precariousness of the balance-of-payments position, tight credit conditions were allowed to prevail in the domestic market, maintenance of the current surplus and protection of the reserves being given priority over domestic expansion as a policy objective. This course of action brought good results, the British gold and dollar holdings having increased rapidly in the first four months of 1958.

The Netherlands and, to a lesser degree, Belgium — in both of which industrial production declined in the latter half of 1957 — can also be included in the group of countries in which the restrictive action of the monetary authorities was partly due to balance-of-payments difficulties, whereas such countries as Sweden and Austria, with a satisfactory trend of industrial production and no balance-of-payments difficulties, belong rather to the same group as Germany and Italy.

The movements of interest rates in the various countries seem to have exerted a strong influence on the prices of shares, although in some countries events in the U.S. stock market also played a rôle. In three of the countries shown in the following graph (France, the Netherlands and the United Kingdom) the prices of shares rose during the first half of 1957, reaching their peak in July or August and thereafter falling rather sharply, thus paralleling the movement on the New York stock exchange. But this parallelism was not simply due to the influence of U.S. stock exchange developments. It is more than a mere coincidence that the price fall in France and the Netherlands followed in the wake of the raising of the discount rate and the consequent

rise in the long-term interest rate. Only in the United Kingdom do developments on the U.S. stock exchange seem to have had a direct influence. Share prices fell there from July to August (as in the United States), before the discount rate was raised. Nevertheless, the sharpest decline took place between September and October, after the discount rate had been put up to 7 per cent. In Germany share prices remained stationary throughout the first half of 1957 and rose steadily in the second half, when long and short-term rates fell. In Switzerland, they declined between January and October 1957, while at the same time the long-term rate rose steadily. From October onwards, when the long-term rate began to fall, they rose again.



The movement of interest rates may have exerted this influence just as much indirectly, by affecting general expectations regarding the future development of the economy, as directly, by making fixed-interest-bearing securities more attractive than shares.

In most countries private industry made more extensive use of the capital market in 1957 than in 1956. Exceptions to the rule among the countries shown in the following table are Italy and Sweden. In the others the increase was attributable to several different factors. Thus in France the high rate of industrial expansion and the particularly large investments by the petroleum industry were mainly responsible for a 50 per cent. increase

in security issues compared with 1956. In the United States the tight liquidity position of companies (already referred to), the shortage of bank credit and the decline in retained profits all seem to have played their part in inducing companies to increase their security issues by 20 per cent. in spite of the decline in industrial production. In the United Kingdom the credit squeeze must have been partly responsible for the rise of 50 per cent. in security issues. And in Germany the decline of DM 1 milliard in retained profits compared with the previous year must have had a positive effect on the security issues of private business.

Within the total of security issues by private industry a striking shift took place between shares and bonds. In all countries except France the issuing of bonds has greatly increased since 1955 compared with the issuing of shares — and this in a period in which the yield on industrial bonds has risen considerably in all the countries concerned. A number of reasons seem to have been responsible for this development. In the two

Capital issues by industry.*

Countries and years	Shares	Bonds	Total	Shares	Bonds
	amount			as percentage of total	
France	milliards of francs				
1955	122	84	206	59.2	40.8
1956	133	74	207	64.3	35.7
1957	246	60	306	80.4	19.6
Italy	milliards of lire				
1955	163	4	167	97.6	2.4
1956	242	17	259	93.4	6.6
1957	221	32	253	87.4	12.6
Germany	millions of Deutsche Mark				
1955	1,555	417	1,972	78.9	21.1
1956	1,838	534	2,372	77.5	22.5
1957	1,632	878	2,510	65.0	35.0
Netherlands	millions of florins				
1955	417	97	514	81.1	18.9
1956	141	124	265	53.2	46.8
1957	60	384	444	13.5	86.5
Sweden	millions of kronor				
1955	364	—	364	100.0	—
1956	406	10	416	97.6	2.4
1957	199	100	299	66.6	33.4
United Kingdom	millions of pounds				
1955	174	65	239	72.8	27.2
1956	149	76	225	66.2	33.8
1957	157	183	340	46.2	53.8
United States	millions of dollars				
1955	2,820	6,193	9,013	31.3	68.7
1956	2,937	7,636	10,575	27.8	72.2
1957	2,905	9,787	12,692	22.9	77.1
Canada	millions of dollars				
1955	462	313	775	59.6	40.4
1956	688	815	1,503	45.8	54.2
1957	500	960	1,460	34.2	65.8

* Excluding nationalised industries. The figures in the table are not comparable as between countries.

years under consideration the capital requirements of public utilities and the oil industry, which traditionally issue bonds, were particularly large in some of the countries (the United States, the United Kingdom, Canada). In certain others (Germany, the Netherlands and Italy) the government had reduced the public debt, or at least slowed down its increase, and institutional investors, eager to replace government by corporate bonds, were ready takers of bond issues. It is an open question whether a growing awareness on the part of companies of a possible long-run inflationary trend which would progressively reduce the real burden of debt also contributed to the relative rise in bond issues — in which case one would, however, have to assume that the purchasers are less aware of such inflationary tendencies than the companies; or whether the companies have for tax reasons preferred bonds; or whether, finally, the purchasers, dissatisfied with the relatively low yield obtainable on shares in the past two years, have shown a preference for high-yielding fixed-interest-bearing securities, to which the companies have had to adapt themselves.

While the industrialised countries of the West displayed remarkable differences during 1957 and the early part of 1958 as regards the movement of their industrial production, their balance-of-payments positions, the movements of their interest rates, the use which private industry made of the capital market and in many other respects, they had one thing in common: a further rise in consumer prices. This is all the more remarkable because there was no uniformity in the behaviour of wholesale prices. In 1957 the latter showed a slight tendency to fall in Italy, the Netherlands, Sweden and Switzerland, owing largely to the sharp decline in the prices of internationally traded raw materials and foodstuffs and in freight rates. In the United States, the United Kingdom, Germany and France, on the other hand, wholesale prices continued to go up. The sharpest rise occurred in France.

Changes in price levels in selected countries.

Countries	Wholesale prices			Consumer prices		
	December 1955 to December 1956	December 1956 to December 1957	December 1957 to March 1958	December 1955 to December 1956	December 1956 to December 1957	December 1957 to March 1958
	in percentages					
France	4.8	13.9	1.2	1.2	10.9	5.9
Germany	3.3 ¹	0.8 ¹	0.8 ¹	1.8	3.5	0.8
Italy	3.0	- 1.3	- 1.1	2.8	2.2	0.2
Netherlands	5.1	- 0.7	- 0.7	3.7	11.7	0.0
Sweden	2.2	- 0.7	- 0.7	3.6	4.2	2.0
Switzerland	4.5	- 1.2	- 1.5	2.2	2.0	- 0.3
United Kingdom	3.8 ²	3.0 ²	- 0.3 ²	3.1	4.6	0.2
United States	4.5	1.9	1.0	2.9	3.1	1.4

¹ Producer prices.

² Manufactured goods.

As for consumer prices, the extent of their increase was greatest in the Netherlands, where administered prices (in particular, rents and agricultural prices) were raised and an old age insurance system was introduced, the contributions to which are included in the cost-of-living index calculations, and in France, where the rise was due to internal inflation. In Germany, Sweden, the United Kingdom and the United States the increase was much less, though still greater than during 1956, while in Italy and Switzerland the rate of increase declined in 1957.

Inasmuch as the decline in wholesale prices was caused by a fall in the prices of internationally traded raw materials, foodstuffs and freight rates, it cannot yet be interpreted as a sign that inflation has definitely come to a halt. Such a conclusion could only be drawn with any degree of confidence if the prices of domestically produced manufactured goods showed signs of falling. At the end of 1957 this was not yet the case in the more important industrial countries; in the first quarter of 1958, however, the prices of manufactured goods began to decline in a number of countries.

* * *

In last year's Report (page 3) it was said that the "lack of balance in the international positions 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".

Up to the last quarter of 1957 the problem of inflation was still, in fact, the centre of public interest and the monetary authorities considered stopping inflation to be their main task. The discussion (particularly in the United Kingdom, but also in Germany) revolved around the problem of whether the inflation was "cost-induced" or "demand-induced". One group maintained that wages in many countries were rising faster than productivity, and that this meant that business had to raise prices if it wanted to maintain its profits; this they regarded as proof that the inflation was wage-induced. Another group pointed to the fact that in a number of countries job vacancies exceeded job applications and earnings were rising faster than hourly wage rates, which in their view indicated that wages would be even higher than they actually were if the labour market had been truly competitive. According to this group excessive private investments or budget deficits financed by inflationary methods were the cause of the inflation. The question was by no means purely academic. If the latter group was right, a reduction in private and public investment, brought about by monetary policy and/or a conscious effort by the government to reduce its own investments, was the right policy.

If wage increases exceed increases in productivity, as they have done in a number of countries, notably in the United Kingdom, they are clearly a cause of inflation. This, however, does not exclude the possibility that the inflation emanating from the cost side may be accentuated by excessive investment, either public or private. The volume of additional finance made available

by the banks and/or by the activation of previously idle funds may quite possibly exceed the amount that is required to finance the increase in the wage bill plus the percentage mark-up by business, so that a demand inflation is superimposed on a cost inflation. In the United Kingdom, where wage increases have, in the past, exceeded productivity increases, where total profits have not suffered and at the same time job vacancies have exceeded job applications, a combination of the two causes of inflation must have been at work; and an anti-inflationary policy which aimed at preventing both excessive wage demands and further increases in public investment was, therefore, the appropriate one. It should also be clear that there are great differences between countries as regards the sources of inflation. The inflation in France was primarily caused by demand, whereas in the United Kingdom the cost factor played the major part.

Towards the end of 1957 the fear of inflation receded into the background (although consumer prices continued to rise up to the end of the year in all important countries and wholesale prices in many of them) and was replaced by the fear of recession. In some countries the monetary authorities reversed their policies. The Federal Reserve System lowered the discount rates several times and also reduced the reserve requirements. The Bank of England lowered the discount rate in March and May 1958 from 7 to 5½ per cent.; the Nederlandsche Bank also reduced its rate in two steps from 5 to 4 per cent. in March 1958. Germany, owing to the increasing liquidity of the banking system caused by the surplus of foreign exchange, started reducing the discount rate from its highest level of 5½ per cent. as early as September 1956, and the last reduction, in January 1958, brought it down to 3½ per cent.

The second problem, which dominated the international scene throughout the year, was the imbalance in international payments; and the recession in the United States gave rise to the fear that it might even be aggravated in the near future, so that the so-called "dollar shortage" which gave signs of reappearing in 1957 would be made more acute.

The deficit in the U.S. balance of payments in 1956 caused an increase of \$996 million in the gold and dollar holdings of the rest of the world; in 1957, however, the U.S. overall balance was positive, so that the United States drew in \$428 million from abroad. Nevertheless, owing to the additions to the monetary gold stock from current production and Russian gold sales, the gold and short-term dollar holdings of the rest of the world (excluding the gold holdings of the U.S.S.R. and the eastern European countries and the gold and dollar holdings of international institutions) continued to increase in 1957, but only by \$576 million, as against an increase of over \$2 milliard in 1956 — a substantial decrease in the rate of growth. Moreover, the position would have been worse by roughly \$900 million, i.e. there would have been a considerable decline in gold and dollar holdings, had not the International Monetary Fund lent this amount during 1957 to a number of European and other countries.

Changes in gold and short-term dollar holdings of countries other than the United States.

Countries	1956	1957
	in millions of U.S. dollars	
Belgium*	+ 26	- 45
France*	- 452	- 558
Germany	+ 955	+ 770
Italy	+ 131	+ 262
Netherlands*	- 29	- 27
Sweden	+ 54	- 5
Switzerland	+ 158	+ 171
Rest of continental Europe*	+ 56	+ 55
Total	+ 699	+ 623
United Kingdom	+ 212	+ 63
Rest of sterling area	+ 20	+ 1
Total sterling area	+ 232	+ 64
Rest of world	+ 945	- 111
Grand total	+ 2,076	+ 576
International institutions	- 545	- 447

* Including dependencies.

fourth quarter, after public statements from both the German and British sides had made it clear that exchange rates would remain unchanged, the speculative movement of funds was reversed; at the same time Germany stepped up the outflow of Deutsche Mark by a variety of measures (prepayment on armaments orders placed abroad, loans to the I.B.R.D., loans by commercial banks to Belgium and the Netherlands, the speeding-up of indemnification payments to individuals and others), so that the speculative and non-speculative capital outflow together actually caused a small loss of gold and dollars in the last two months of the year. Nevertheless the surplus on current account, at DM 2.1 milliard, was bigger in the fourth quarter than ever before; it was reduced, but still remained large, in the first quarter of 1958.

Whereas Germany was the country with the biggest foreign exchange gain in 1957, France, besides drawing on the International Monetary Fund to the extent of \$263 million, suffered a loss of \$558 million and was eventually forced first to a deliberalisation of imports and then, in August, to a de facto devaluation. Towards the end of the year the French authorities began to negotiate for foreign credits, and early in 1958 a total of \$655 million, of which \$532 million was available for 1958, had been obtained from various sources (E.P.U., I.M.F., U.S. Government and Export-Import Bank). After a short-lived improvement, the loss of foreign exchange began again in March 1958.

The United Kingdom, whose reserves benefited from the \$200 million drawn by India from the International Monetary Fund and the \$250 million

This decline in the additions to the gold and dollar holdings of countries other than the United States would not have been serious had it not been greatly aggravated by their uneven distribution. Germany alone added to its holdings more than the total increase that accrued to continental Europe as a whole or to continental Europe plus the sterling area.

The inflow of gold and dollars into Germany took place mainly in the first three quarters of the year. The chief reasons for this movement were the extraordinary German surplus on current account in the first three quarters and the speculation in favour of the Deutsche Mark in the third quarter, caused by rumours of an appreciation of that currency and a depreciation of sterling. In the

loan from the American Export-Import Bank, emerged at the end of the year with a net addition to its official gold and dollar holdings of \$140 million (the figure in the table, taken from the Federal Reserve Statistics, includes private holdings); but during the year, in the third quarter, the country passed through a phase in which it lost gold and dollar reserves on a large scale — \$531 million — as a result of bear positions taken up against the pound sterling in connection with the above-mentioned rumours that sterling would be devalued and the Deutsche Mark revalued. The flow was reversed when the raising of Bank rate to 7 per cent. made it clear that there would be no devaluation; and by the end of May 1958 the British gold and dollar holdings had recovered to such an extent that their level was higher than at any time since the middle of 1954.

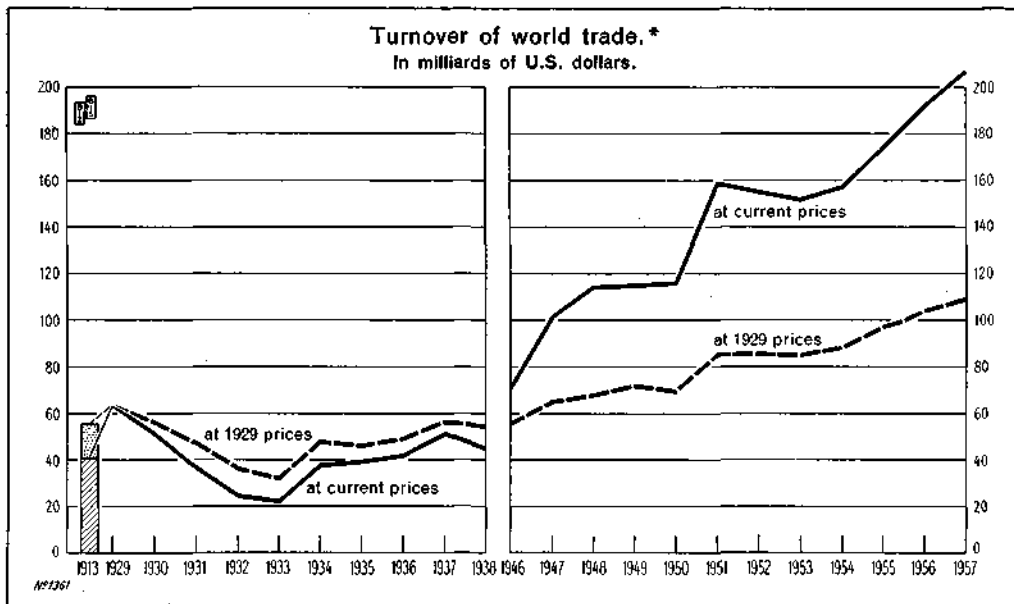
Other countries, such as the Netherlands and, to a minor extent, Belgium, also suffered from the wave of speculation in the third quarter of 1957.

The decline in the gold and dollar earnings of all countries other than the United States in 1957 and, in a much greater measure, the uneven distribution of the addition to the international liquidity reserves during the year restricted the freedom of manoeuvre of some countries and contributed, as we have seen, to the slowing-down, or even decline, in economic activity; furthermore, these factors led to the reintroduction by France of quantitative controls on imports and caused heavy borrowing from international institutions, thus reducing the future potential supply of international liquidity reserves from these sources. The removal of the causes of this imbalance in international accounts remains one of the foremost problems to be tackled, particularly if such important innovations as the European Economic Community and the arrangements which are being negotiated between its six members and the other eleven members of the O.E.E.C. (Free Trade Area) are to function satisfactorily.

In the past few years differences in the degree of inflation in the various countries and international capital movements connected with them have been at the root of balance-of-payments difficulties. But it may well be that in the near future such disequilibria will spring from another source: the U.S. recession and the varying degree to which the European economies will be affected by it. The extent to which balance-of-payments difficulties will arise from this source will depend partly on the vigour of the anti-recession policies pursued in those countries which, because of their strong reserve positions, have most room to manoeuvre, in particular the United States and, on the continent of Europe, the German Federal Republic; it will also depend, however, in those countries in which inflationary forces are still so strong that they are pricing themselves out of the world market, on the success of their anti-inflationary policies.

There was one factor at work in 1957 which, on balance, affected favourably the balance-of-payments positions of most of the industrialised countries in the West, namely, the marked decline in the second half of the year in the prices of internationally traded raw materials and foodstuffs.

The decline led to an improvement in the terms of trade of a number of industrialised countries and thus to an increase in their real incomes. At the same time these countries saved foreign exchange. It remains to be seen whether in the future the fall in these prices will affect the imports of the supplier countries — via a decline in their national income — so adversely that what the industrialised countries gain in foreign exchange by the improvement in the terms of trade will be lost by a relative decline in their exports. Some of the suppliers are members of the outer sterling area and as such are in possession of sterling balances in London on which they can draw when their earnings from exports fall off, so that their imports need not suffer. The exports of the United Kingdom and other countries may in this case be maintained (although the British balance of payments may come under pressure). The figures for the first three quarters of 1957 indicate that the imports of the main raw-material-producing countries had not up to then experienced any serious decline.



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

World trade as a whole during 1957 was not adversely affected by the levelling-off of economic expansion and by the balance-of-payments difficulties of some countries. The increase in the total turnover of trade amounted to 8 per cent. in current prices and 5 per cent. in constant prices and thus exceeded the growth in output in the United States and most European countries. Foreign trade must thus have exercised a stimulating influence on economic activity in the western world.

* * *

At the time of writing the economic scene is dominated by the recession in the United States and the fear in Europe as to the repercussions which this recession may have on the European economies. Past experience has

shown that a U.S. recession may or may not drag down the European economies with it. The U.S. slump of 1948-49 did have an adverse effect on the European economies; the slump of 1953-54 did not do so. There were two main reasons for this difference: in 1953-54 the European economies had a pronounced investment boom of their own, which was not the case in 1948-49; and this boom was not restrained by a shortage of gold and dollars, since there was a large outflow of dollars from the United States owing to government purchases abroad, foreign capital investments and other factors. The gold and dollar holdings of western Europe increased in the two years 1953 and 1954 by \$4.1 milliard, whereas in the two years 1948 and 1949 they rose by only \$184 million.

Viewed against the background of this past experience, the present situation can be assessed as follows. The surplus in the U.S. overall balance of payments in 1957 was to a large extent due to a substantial increase in exports in the first half of the year, which was caused by an abnormal foreign demand, arising out of the Suez crisis, for American oil and some other commodities. This demand declined to a more normal level in the second half of 1957, and in the last quarter of the year the U.S. balance was once more in deficit, so that there was again a gold and dollar outflow (on a seasonally adjusted basis) of \$440 million in that period alone. Unless the U.S. recession becomes very severe, so that the decline in American imports assumes major dimensions, and/or the European and other economies expand rapidly — which at the time of writing appears unlikely — there does not seem to be much reason to fear the emergence of a dollar shortage in 1958. It is therefore up to the rest of the world to avoid any further accentuation of the uneven distribution of reserves. The fear that the past maldistribution will continue may prove more justified than the fear of a general dollar shortage.

The demands which are being made in a few countries that the governments, in co-operation with the central banks, should spend their way out of stagnation or recession must be seen against this background. Not all countries would be able, in view of their reserve positions, to resort to such a policy if a serious recession should really develop. The world must look to the countries with strong reserves to take effective action. Yet even for those countries which must and can take the lead the problem is by no means a simple one. They are caught between the necessity of combating an actual or possible stagnation or recession and that of avoiding further inflation; from among the possible measures they must choose those which, while avoiding inflation, are capable of reviving economic activity. If these measures are successful they will automatically benefit countries with precarious balance-of-payments positions, provided the latter succeed in avoiding any further inflation and in readjusting their economies to non-inflationary conditions. The authorities should not let their understandable desire to restore (or maintain) full employment blind them to the need for readjustment — a readjustment which, after the distortion caused by a perhaps excessive boom, is the essential prerequisite of further balanced growth.

II. Savings Flows and Capital Markets.

The forces working towards equilibrium or disequilibrium in the world economy, as already broadly described in Chapter I, find expression not only in the relationship between saving and investment within particular countries but also in wide divergences in the rates of capital formation between different countries (see graph on next page). These rates are, of course, governed in part by such fundamental economic factors as the natural wealth of the individual country, its stage of economic development and the rate of growth of its population. But they are also, and sometimes to a considerable extent, the result of official intervention.

So far as investment is concerned, many countries have adopted extensive programmes in connection with housing, the development of certain regions and the expansion of production in sectors considered as being of basic importance to the economy. Government intervention in the field of investment has, however, often been undertaken without sufficient regard for the necessity of financing it in a non-inflationary manner. The authorities have it in their power to increase total saving by reinforcing private saving with public saving or, on the other hand, they can by their own excessive current outlays absorb funds which might otherwise have contributed to a soundly-based expansion of investment.

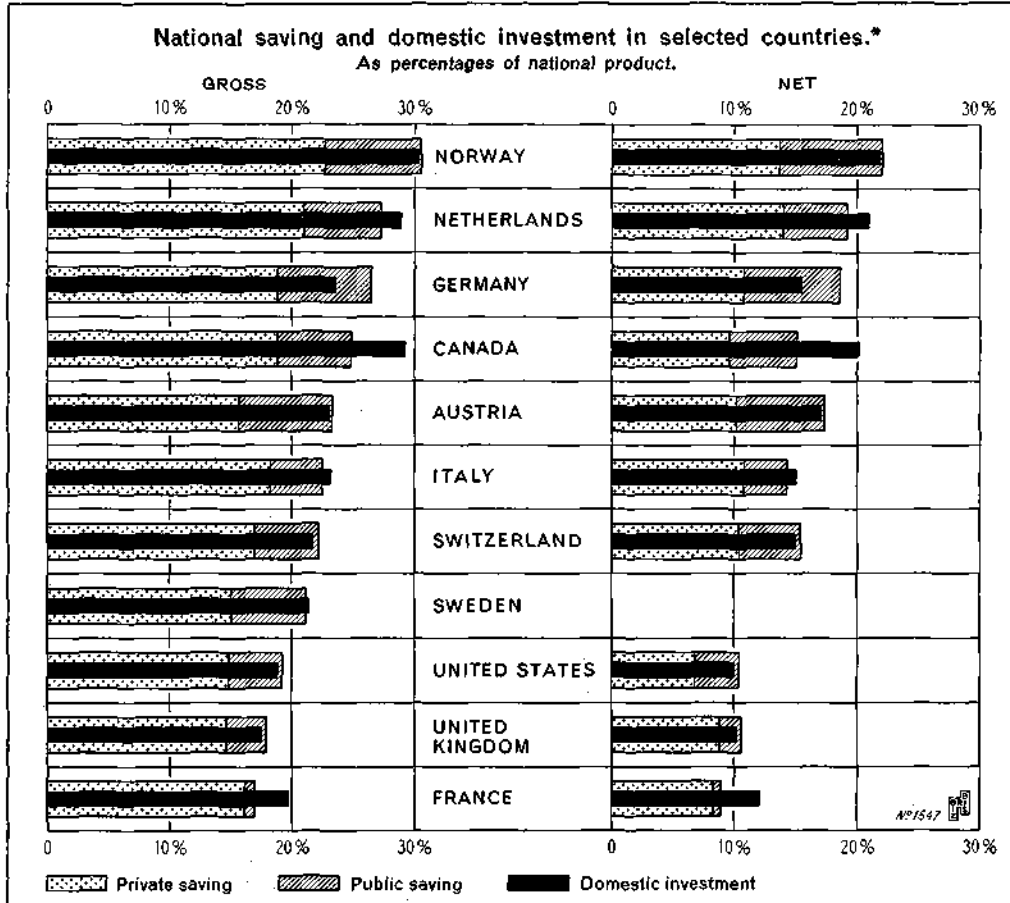
Moreover, even in those countries which are now confronted with a temporary recession of investment activity, it is of paramount importance that, whenever fiscal action is to be combined with a relaxation of monetary restraints, those measures should be employed which are least likely, in the longer run, to impair the saving potential of the economy.

From the international point of view, in particular, it is essential that the authorities, in shaping their policies, should not lose sight of the fact that it is the relationship between national saving and domestic investment which in effect determines the extent of foreign investment (or disinvestment).^{*} Unless both saving and investment are closely adapted to the realities of the domestic and external situation, there inevitably arise inflationary or deflationary tensions which prevent the full realisation of specific policy aims and which are incompatible with a continuing and stable expansion of economic activity.

* * *

^{*} This relationship (which is to be understood in its dynamic — and not merely its definitional — sense) was described, in the case of certain countries, in Chapter II of the Bank's Twenty-seventh Annual Report. The terms employed here, and the meanings attributed to them, are as explained in that Report (page 32).

The first observation prompted by a comparison of rates of saving and investment is that a high rate of national saving (or, for that matter, a continuous expansion of production) is in itself by no means sufficient to ensure a satisfactory balance-of-payments position. For the rate of domestic investment may in fact be still higher, as was the case, for instance, in the Netherlands in 1957.



* The data for all countries are for 1957, except those for Austria and Sweden (1956) and for Switzerland (1955). The following adjustments have been made in order to improve the comparability of the data: (i) saving through social insurance funds, where significant, has been included as part of public saving; (ii) expenditure on repairs and maintenance has been deducted from the estimates for Sweden and Norway; (iii) in the case of Sweden, military investment has been treated as an item of government current expenditure; and (iv) in the estimates for the United States, public investment has been assumed to be equal to public expenditure on new construction, while for Canada the data have been adjusted to include an estimate for gross public investment expenditure of all kinds (public saving having been increased correspondingly).

A second point of interest is to be seen in the relationship between private and public saving. While there are divergences among the countries in the rates of private saving as a percentage of the national income, these differences are not so marked as those in the rates of public saving. Net private saving stands at about 10 per cent., more or less, of the net national product in most of the countries shown in the graph, while the net saving of the combined public authorities (excluding public corporations) ranges from over 8 per cent. of the net national product in the case of Norway to less than 1 per cent. in the case of France.

In each of the countries included in the graph private saving remains the most important form of saving, and the differences in private saving rates, though not always large, are nevertheless significant. In the long run, the problem of sustaining — and of stimulating — private saving, particularly through the maintenance of monetary stability, will remain a crucial one. The graph does suggest, however, that increases in investment-financing requirements, especially in those of the public authorities, will not be fully matched by compensating movements in private saving, so that a substantial contribution from the public sector may be necessary for the attainment of a satisfactory rate of total saving.

Looking at the longer-term experience of the United States, it may be seen that private saving — both personal and business — stood in about the same relationship to disposable income in 1957 as in 1929, despite the large increase that took place in the burden of taxation during the intervening years. In the personal sector, although the burden of taxation doubled over the period in question — rising from 10 per cent. of the net national product in 1929 to over 20 per cent. in 1957 — personal saving as a percentage of post-tax disposable income was actually higher in 1957 (6.7 per cent.) than in the earlier year (5.0 per cent.). In the corporate sector, although the share of corporate profits absorbed by direct taxation increased from 14 per cent. in 1929 to 53 per cent. in 1957, the proportion of post-tax profits retained in the form of undistributed profits remained approximately the same, i.e. one-third. In assessing the significance of these rather stable savings ratios, it must, of course, be borne in mind first that the United States has been more successful than most other countries in maintaining a stable currency; secondly, that the structure of taxation there, though it has become more “progressive” in the course of time, is still not exceptionally income-equalising in character; and, thirdly, that special fiscal incentives to personal and business saving have been relatively modest in scope.

Given a particular level of taxation within a country, the volume of public saving depends upon the proportion of total government revenues not allocated to current expenditure on goods and services and to current transfer payments, and this proportion can be large or small.

The causes of differences in rates of public saving are many and varied. The strength of Germany's position, for instance, is attributable not merely to its relatively low level of expenditure for defence purposes but also to its small subsidy outlays and debt-servicing requirements. Moreover, while that country's current transfers to private individuals are unusually high (owing largely to equalisation-of-burdens claims resulting from the war), these are, more than in most other countries, offset by current receipts from compulsory insurance and special tax contributions. Finally, in Germany direct and indirect taxation are high, being equivalent to just over one-quarter of the net national product. On the other hand, in the United Kingdom and in France, military expenditure as a percentage of the net national product is higher than in Germany, and both these countries

have the added burden of comparatively large outlays on subsidies and interest payments — the debt-servicing requirements of the United Kingdom, in particular, being far heavier than those of any other country. France, owing to its extensive social welfare programme, makes exceptionally large current transfers to private individuals and, although compulsory social insurance contributions are also large (amounting to the equivalent of about two-thirds of these transfers), the net burden on the budget is markedly greater than in the United Kingdom and is still more striking when compared with the position in Germany and the United States.

In the United States, military expenditure is much higher in relation to the net national product than in any of these other countries and, except for the United Kingdom, the same is also true of its debt-servicing requirements. Subsidy payments are small, however, and current transfers of a social welfare character are not only less than in most of the other countries shown in the graph but are also largely offset by the receipt of compulsory social security contributions. Canada, whose position is similar to that of the United States as regards total revenue, has an appreciably smaller defence burden and hence, even with a more extensive system of social transfer payments to individuals, is better placed to achieve a higher rate of public saving.

As far as the funds raised by direct and indirect taxation are concerned, the differences between the five afore-mentioned countries are not so striking as one might suppose. In 1957, total revenue from these sources ranged from about 25 per cent. of the net national product in France and Canada to just under 28 per cent. in the United Kingdom.

Account must also be taken, however, of differences in the structure of the tax systems, as these differences would appear to have an important bearing upon the volume of saving by the private sector. The fact, for instance, that in 1957 private saving amounted to 8.5 per cent. of the net national product in Canada but only to 6.8 per cent. in the United States may be attributable in part to the greater reliance placed in Canada on indirect taxation, which tends to be regressive in character and appears not to impair saving to the same extent as does a progressive structure of income taxation. The same — or even a sharper — contrast seems to exist between the United Kingdom and Germany. Not only is the proportion of revenues derived from direct taxation much larger in the United Kingdom than in Germany but the degree of progression in the structure of personal income taxation is much greater, giving less scope for saving. Moreover, in Germany indirect taxation falls rather heavily even upon items of general consumption, while in the United Kingdom such taxation is more selective and the purchase tax, in particular, incorporates a certain crude element of progression in the form of higher rates for less essential goods.

In the northern countries (Sweden, Norway and Finland) and in Austria — all of which have quite high rates of public saving — the common

elements seem to be relatively heavy tax burdens and comparatively low military expenditure. Indirect taxes play an important rôle in all these countries, though to a markedly smaller extent in Sweden, where, however, the average as well as the marginal rates of direct taxation on personal income are exceptionally high. It may be added that social insurance transfers in Sweden are financed for the most part out of general taxation, with the result that the burden of direct taxation is unusually heavy.

Since an increase in public saving, particularly when brought about by means of a curbing of expenditure, may occur without a commensurate decline in private saving, a high level of public saving is not necessarily a sign that the flow of capital-market funds to private enterprise is correspondingly reduced. Indeed, public saving is in some instances sufficiently high in relation to public investment outlays actually to increase the flow of funds to the capital market — as, for example, in the case of the purchases of securities effected by the social insurance institutions in Germany and Switzerland or, more generally, in the case of an overall budget surplus used to repurchase outstanding government securities. On the other hand, if the supply of public savings is insufficient to cover the public authorities' own investment outlays, they may make heavy demands upon the funds flowing into the capital market.

* * *

Against the background of the preceding remarks, recent developments in savings flows and capital-market activity in certain selected countries will be examined in the following pages. The statistical material available for these countries includes not only estimates of saving and investment by sectors but also fairly precise data on financial transactions between the different sectors (e.g. the central government, the local authorities, public corporations, private companies and households).

The most convenient point of departure (see the Bank's Twenty-seventh Annual Report, page 33) is the savings position of each sector, from which it is possible to derive, by adding net receipts from capital transfers, an estimate of the amount of investible funds that has accrued to the sector during a given period. By then deducting the sector's own capital expenditure, a residual is obtained which reflects the sector's net lending or borrowing in relation to other sectors. This "financial" surplus or deficit, which is a measure of the sector's net acquisition of financial assets and liabilities, can finally be traced in detail to variations in the particular classes of assets and liabilities, both short and long-term, which compose it.*

* In the U.S. flow-of-funds accounts, the Federal Reserve Board, in order to distinguish clearly between the "sources" of investible funds and their "uses", refers to the excess of a sector's current investible funds over its own expenditure on real capital goods as its "non-financial surplus", and this has an exact counterpart, assuming both could be precisely and independently measured, in the sector's "financial surplus", i.e. its actual net acquisition of financial assets and liabilities. Although in the following text the term "financial surplus" is used to refer to both the sources and the uses of the funds in question, the distinction is important and should be borne in mind.

In the United Kingdom, as the investment boom progressed between 1954 and 1956, the flow of savings by sectors evolved in an erratic manner, thus helping to bring about large shifts in the country's external balance. By 1956, however, a persisting scarcity of savings in relation to national commitments, as evidenced in part by rising prices and a weak reserve position, had come to be concentrated mainly in the public sector. In the personal sector, on the one hand, net saving in relation to investment had risen to a moderate extent in 1955 and then spectacularly in 1956, raising the sector's financial surplus from £90 million to £695 million within the two-year period. This was more than sufficient, by 1956, to compensate for the decline in the financial surplus of the company sector, where investment had considerably increased in relation to internal saving. In the public sector, on the other hand, the central government's financial surplus in 1956 had fallen back, after a rise in 1955, to the level of 1954, while the combined financial deficit of the public corporations and local authorities had risen over these two years from £685 million to £830 million. Thus the public sector (including the public corporations) had drawn increasingly upon the financial resources of the private sector (see table on next page).

In 1957, net domestic investment expanded further, rising to 10.2 per cent. of the net national product, compared with 9.1 per cent. in 1956 and 7.2 per cent. in 1954. Net domestic fixed-capital formation increased from £1,465 million in 1956 to £1,620 million in 1957, while at the same time there was a favourable shift in the composition of fixed investment, the construction of new dwellings falling to only 18.4 per cent. of gross fixed investment, against 20.1 per cent. in 1956 and 25.2 per cent. in 1954. Finally, investment in stocks and work in progress increased, in terms of value, by £425 million (against £250 million in 1956).

Although net national saving also grew considerably in 1957, rising from 10.5 to 11.4 per cent. of the net national product, the increase fell slightly short of the expansion in net domestic investment. Thus, net foreign investment diminished correspondingly, from £265 million in 1956 to £240 million in 1957 — partly, of course, owing to the increase in stocks and work in progress.

The largest part of the increase in saving in 1957 was achieved by the central government, whose net saving (before capital transfers) rose from £210 million in 1956 to £400 million in 1957, or from 1.1 to 2.0 per cent. of the net national product. This increase was attributable mainly to a cut in defence expenditure from £1,625 million to £1,530 million, or from 9.9 to 8.8 per cent. of the net national product. Total tax revenues, on the other hand, rose closely in line with the growth in the net national product, as did also total non-defence outlays (including transfer payments). Since the central government's own investment expenditure increased but little between 1956 and 1957, the growth in savings was reflected almost entirely in the sector's financial surplus, which rose from £230 million to £445 million. Moreover, in addition to this internal margin of investible funds, the central government acquired some £280 million of capital funds from other sources

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

Sectors	Years	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	1954	580	48	340	280	190	90
	1955	875	10	360	525	270	255
	1956	1,315	10	375	950	255	695
	1957	1,450	20	390	1,080	330	750
Companies	1954	1,320	170	500	995	475	520
	1955	1,480	20	565	915	770	145
	1956	1,465	200	615	1,050	740	310
	1957	1,560	140	670	1,050	905	140
Public corporations . .	1954	210	— 10	290	— 85	165	— 255
	1955	170	5	310	— 130	270	— 400
	1956	190	15	395	— 130	275	— 405
	1957	170	5	360	— 180	360	— 540
Central government . .	1954	300	—	145	155	— 75	230
	1955	510	—	150	360	— 70	430
	1956	430	—	150	280	50	230
	1957	655	—	160	495	55	445
Local authorities	1954	145	—	150	— 5	425	— 430
	1955	125	—	165	— 35	380	— 415
	1956	145	—	175	— 30	395	— 425
	1957	170	—	190	— 20	395	— 415
Total ⁴	1954	2,625	205	1,420	1,415	1,185	230 ⁵
	1955	3,060	40	1,550	1,545	1,615	— 70 ⁵
	1956	3,410	225	1,650	1,980	1,715	265 ⁵
	1957	3,885	165	1,770	2,280	2,045	235 ⁵

¹ Including net capital transfer receipts. 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 (i.e. balance of payments on current account).

Sources: National Income and Expenditure (Blue Book, 1957); Preliminary Estimates of National Income and Expenditure, 1952-57 (Cmnd. 398).

— National Savings (£40 million), fiduciary currency issue (£125 million), net loans and transfers from overseas governments less increase in foreign reserves (£40 million), etc. — bringing the total of its loanable funds to over £720 million. Of this amount, £620 million was lent to the public corporations (£270 million in 1956) and £60 million to the local authorities (£90 million in 1956), while the remainder, £40 million, was reflected in a reduction of debt in the form of securities.

In the public-corporation sector, gross saving has consistently remained too low to cover capital depreciation charges, and hence this sector has shown a substantial rate of net dissaving. Moreover, this savings gap, which is attributable principally to the low prices (including fares and freight charges on public transport) adopted as a matter of policy by these enterprises, has apparently widened somewhat during recent years. At the same time, the sector's net capital formation has grown very rapidly, having more than doubled between 1954 and 1957. In consequence, the public corporations' net financial deficit has climbed steadily, rising from

£255 million in 1954 to £540 million in 1957. The funds needed to cover this deficit have been obtained from the central government, which since 1956 has included its loans to the public corporations as a "below-the-line" item in its budget. As one of several additional measures of restraint, the government announced in September 1957 a curb on the investment outlays of both the public corporations and the local authorities.

The financial deficit of the local authorities has remained steady at a high level over recent years, varying only within the narrow limits of £415 and 430 million between 1954 and 1957. This relative stability of the net deficit conceals, however, a diminution in the local authorities' investment in housing — which dropped from £335 million in 1954 to £235 million in 1957 — and a smaller increase in other types of capital expenditure. The raising of funds has been conditioned principally by the central government's decision in October 1955 to compel the local authorities to rely thereafter less on central-government finance and more on the private capital market. In 1957, net lending by the central government to the local authorities totalled £62 million, compared with £89 million in 1956 and £414 million in 1955. On the other hand, funds raised by means of new capital issues came to only £25 million in 1957 (against £55 million in 1956), and bank advances showed no perceptible change on the preceding year. This suggests that the bulk of local-authority financing requirements must have been met by means of direct loans obtained from institutional lenders.

In the company sector, net investible funds (gross saving plus additions to dividend and tax reserves less depreciation allowances) were of the same magnitude in 1957 as in 1956 (£1,050 million). Hence a further substantial increase in net domestic investment by companies — from £740 million in 1956 to £905 million in 1957 — was reflected fully in a decline in the sector's net financial surplus from £310 to 140 million. This change was attributable entirely to a fall in the surplus of non-financial companies from £200 million in 1956 to £35 million in 1957, since that of financial companies rose slightly between the two years (from £105 to 110 million). It should also be noted that the sector's financial surplus includes net foreign investment by companies, which is estimated to have amounted in 1957 to as much as £250 million, some £200 million of which represented the direct reinvestment of earnings abroad, mainly by non-financial companies. The fact that some companies within the sector are net borrowers while others are net lenders also helps to explain why, despite the sector's overall financial surplus, companies have in practice had to rely to an increasing extent on borrowed funds. This is evidenced in particular by the rise in new capital issues by domestic companies from £210 million in 1956 to £295 million in 1957. Moreover, it would also appear that bank advances to the company sector increased somewhat in 1957, since advances to manufacturing industry as a whole are known to have risen by £70 million.

In the personal sector (which includes farms and individually-owned enterprises), investment — mainly in private dwellings — has risen in recent years, but this outlay has been greatly exceeded by the growth in

personal saving. In consequence, the sector's financial surplus has expanded from the small figure of £90 million in 1954 to £695 million in 1956 and £750 million in 1957. As in the case of the company sector, the composition of this increase in the surplus cannot be precisely ascertained. By far the larger part, however, appears to have taken the form of a further growth, considerably in excess of £500 million, in insurance and pension funds. It is known, in addition, that personal bank deposits less advances rose by over £150 million and that National Savings increased by £70 million.

The trend of saving in the United Kingdom in 1957 was in several respects salutary. Saving increased most in the central-government sector, where in the preceding year the deficiency, in relation to that sector's financial commitments to the other public authorities, had appeared especially marked. This result was achieved by a curtailment of military expenditure, the total of all other outlays having continued to increase. Net personal saving, after having risen from 3.0 per cent. of personal disposable income in 1954 to 7.1 per cent. in 1956 (thus reaching a more or less normal level for the first time in the post-war period), increased further to 7.7 per cent. of disposable income in 1957. It is also worth observing that, being the result of a decline in expenditure, the increase in central-government saving was not achieved at the expense of personal (and business) saving. Indeed, the greater economic stability imparted by the government's own surplus may have helped to encourage private saving.

In France, as in the United Kingdom, net domestic investment has been steadily growing as a proportion of the net national product, having risen from 8.4 per cent. in 1954 to 11.3 per cent. in 1956, and again to 12.1 per cent. in 1957. The country's savings position, however, deteriorated sharply between 1955 and 1956, net national saving falling from 11.4 per cent. to 9.0 per cent. of the net national product. Accordingly, there was a shift in the external position on current account from a surplus of Fr.fcs 205 milliard in 1955 to a deficit of Fr.fcs 405 milliard in 1956, which became even larger in 1957 (Fr.fcs 535 milliard).

Owing largely to the accelerated pace of investment, the financial deficit of the enterprise sector in France rose sharply from Fr.fcs 155 milliard in 1955 to Fr.fcs 545 milliard in 1956 and Fr.fcs 665 milliard in 1957. In this context, however, account must be taken of the fact that these figures — unlike those for the U.K. company sector (see page 32) — include the financial deficit of France's nationalised industries, which, as in the United Kingdom, constitute an important part of the economy and have persistently shown a substantial net dissaving. The sector also includes, in the case of individually owned enterprises, the part of new saving which is used for investment purposes, but excludes entrepreneurial withdrawals of current earnings.

As may be seen in the table, the growing financial deficit of the business sector in France was closely associated with the rise in short and

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

Items	Years	Households	Enterprises	Public authorities	Financial institutions ¹	Rest of world
Net saving	1955	790	485	170	130	.
	1956	715	380	80	210	.
	1957	770	535	130	260	.
Net capital transfer receipts	1955	165	215	- 185	-	195
	1956	155	245	- 270	-	130
	1957	160	220	- 330	-	45
Net Investment (-)	1955	- 385	- 855	- 325	-	.
	1956	- 395	- 1,170	- 360	-	.
	1957	- 475	- 1,420	- 390	-	.
Financial surplus (+).	1955	565	- 155	- 340	130	205 ²
	1956	475	- 545	- 550	210	- 405 ²
	1957	455	- 665	- 585	260	- 535 ²
Corresponding changes in financial assets (increase +) and liabilities (increase -)						
Money (cash and sight deposits) . . .	1955	375	320	- 110	- 600	- 10
	1956	315	275	- 155	- 435	-
	1957	235	355	- 80	- 510	-
Other short and medium-term claims (including savings deposits) on the Treasury and the financial institutions	1955	440	240	- 310	- 425	- 55
	1956	340	255	- 195	- 400	-
	1957	300	275	- 270	- 390	- 85
Securities	1955	80	- 115	- 15	60	5
	1956	280	- 40	- 330	105	15
	1957	240	- 210	55	- 65	15
Bank credits (short and medium-term) and Treasury advances	1955	- 185	- 380	80	490	10
	1956	- 155	- 680	145	700	15
	1957	- 115	- 700	205	615	10
Long-term loans (non-negotiable) . . .	1955	- 10	- 200	35	285	110
	1956	- 10	- 330	40	365	70
	1957	- 65	- 345	- 10	515	95
Net short-term transactions between the Treasury and the financial institutions	1955	.	.	- 55	55	.
	1956	.	.	- 170	170	.
	1957	.	.	- 480	480	.
Credit and loans from and to foreign countries and the overseas territories	1955	-	5	100	40	130 ³
	1956	-	20	85	- 65	-
	1957	-	70	- 10	- 215	- 295 ³
Gold and foreign exchange	1955	- 20	- 10	- 60	245	155 ³
	1956	-	-	-	- 225	- 220 ³
	1957	-	-	-	- 140	- 140 ³
Statistical adjustment ⁴	1955	- 115	-	-	- 20	- 135
	1956	- 295	-	30	- 10	- 260
	1957	- 145	35	5	- 25	- 135

¹ Including, in addition to the banks, the Bank of France, the public credit institutions and the insurance companies. ² Net investment in foreign countries and in the rest of the French franc area. A positive figure signifies an increase in claims (or a decrease in liabilities) vis-à-vis the rest of the world. ³ See also Chapter VI. ⁴ Including unidentified movements of funds, which consist mainly of capital repatriated from French North Africa to the metropolitan area.

Source: Rapport sur les Comptes de la Nation, 1957.

medium-term bank credit (plus Treasury advances) from Fr.fcs 380 milliard in 1955 to about Fr.fcs 700 milliard in 1956 and 1957. In addition, net long-term loans (non-negotiable) — consisting principally of credits for industrial equipment and construction from the Fund for Economic and Social Development and from the various specialised public credit institutions — rose from Fr.fcs 200 milliard to almost Fr.fcs 350 milliard over the same period.

The most notable development in the financing of enterprises in 1957 was the marked increase in new capital issues (mainly share issues), which provided the sector with net new funds totalling Fr.fcs 210 milliard in that year, against only Fr.fcs 40 milliard in 1956. Together, the funds obtained from the afore-mentioned sources came to over Fr.fcs 1,250 milliard, or almost twice as much as the sector's financial deficit in 1957. This considerable difference is accounted for by a further large growth in enterprise holdings of liquid assets, which continued in 1956 and 1957 despite the disinflationary impact of the balance-of-payments deficit. More than one-half of the increase consisted of currency and sight deposits and the remainder principally of short-term securities. While the explanation of this development may lie in part in a growing diversity of economic position and outlook among the various enterprise groups, it is also conceivable that many firms were building up liquid assets in anticipation of further measures of credit restraint.

The public sector, far from having been able by means of its own saving to compensate to some extent for the growth in the borrowing of the enterprise sector, has itself incurred an increasingly large financial deficit. On the income side, tax revenues and social insurance contributions have increased since 1955 in relation to the net national product, but this change has been partly offset by a decline in net foreign aid receipts. Current expenditure on goods and services has shown a rising trend, mainly because of larger military outlays. In addition, certain categories of transfer payments have expanded disproportionately, in particular production subsidies to enterprises and social benefits to individuals. Finally, gross investment, principally by the local authorities, has risen roughly in line with the net national product.

The Treasury normally receives a rather large flow of funds as a result of new deposits with the postal cheque system, increases in the amount of coins in circulation, and, more important, net new issues of short and medium-term securities. As may be seen in the first two items in the lower half of the table, however, the total net volume of these funds placed at the disposal of the public sector changed relatively little between 1955 and 1957, and thus did not help to cover the increase in the financial deficit. In 1956, when financing requirements rose sharply, the principal additional source of funds was the successful issue of Fr.fcs 320 milliard of National Loan bonds. In 1957, however, no net funds were obtained by such means and the considerable marginal financial needs of the Treasury were satisfied mainly by net new credits from the Bank of France, totalling

about Fr.fcs 480 milliard. Attention should finally be drawn to the fact that, in the table, the small figures shown for the public sector under the heading "long-term loans (non-negotiable)" actually represent the net balance of two large but mutually offsetting flows of funds. One stream consists of long-term loans granted to the local authorities by the Caisse des Dépôts et Consignations (which in the table is included under "Financial institutions"), while the other comprises Treasury funds channelled to enterprises through the Fund for Economic and Social Development.

The financial surplus of private households rose significantly between 1954 and 1955, but has since shown a tendency to fall. The decline was in reality somewhat less than appears from the table: personal saving through insurance channels is included not in the household sector but in the financial sector, and it is estimated that the growth in the technical reserves of life assurance companies amounted to Fr.fcs 100 milliard in 1955, rising to Fr.fcs 125 milliard in 1957. Nevertheless, that a decline occurred is in itself a significant fact, for it meant that the personal sector could make no contribution to meeting the increased borrowing of the rest of the economy. The reduced flow of financial funds appears to have been due not so much to a decline in saving in relation to post-tax incomes as to a rise in investment within the sector itself.

Between 1955 and 1957 the growth in the liquid assets of households (principally money and savings deposits) varied closely in line with — but always remained above — the sector's net financial surplus. In contrast, the sector's net purchases of shares and bonds fluctuated more irregularly; but they came to play an important part in 1956 and 1957, first through the sector's acquisition of the main bulk of the National Loan of 1956 and then, with a shift in direction, through its absorption of the greater part of the substantially increased volume of new capital issues of enterprises in 1957.

An important source of funds for the household sector consists of bank credits and (in 1957) long-term non-negotiable loans. These two categories should be examined together, as they are composed mainly of housing credits initially granted as medium-term credits but later consolidated as long-term loans (this began to be done on a large scale in 1957).

The household sector's net acquisition of different kinds of financial assets has in recent years exceeded the ascertainable increase in its net financial liabilities by an amount considerably greater than its financial surplus. This unidentified margin — shown in the table as the statistical adjustment — reflects, among other things, a certain volume of capital repatriated from French North Africa in 1956 and 1957 and re-employed in various ways in metropolitan France.

The financial sector's transactions are to a large extent a counterpart of the transactions of other sectors which have already been discussed. In addition to banks, the sector includes mainly the central bank, the large number of specialised public credit institutions, and insurance companies. The

sector's net liabilities consist, of course, principally of money and sight and savings deposits, the latter being placed largely with the ordinary savings banks and the Caisse Nationale d'Épargne, which in turn redeposit virtually all these funds with the Caisse des Dépôts et Consignations. In 1956, when new funds received by the Caisse des Dépôts totalled Fr.fcs 375 milliard, Fr.fcs 180 milliard was lent to the local authorities, Fr.fcs 90 milliard was lent via the Treasury to the authorities responsible for the low-cost housing scheme and the remainder was used mainly to subscribe to new security issues by the central government, nationalised industries and public credit institutions. The total flow of new funds to the Caisse des Dépôts has been increasing in recent years.

The net bank credits granted by the financial sector include not only ordinary commercial credits but also a large volume of rediscountable medium-term credits for equipment and construction purposes. Medium-term credits rediscounted at the central bank increased by Fr.fcs 115 milliard in 1955, Fr.fcs 415 milliard in 1956 and Fr.fcs 300 milliard in 1957.

The long-term (non-negotiable) loans extended by the financial sector consist largely of the above-mentioned credits granted to local authorities by the Caisse des Dépôts. Also important, however, are the investment loans made by the Fund for Economic and Social Development through the agency of certain of the specialised public credit institutions. In addition, these institutions — in particular, the Crédit Foncier, the Crédit Agricole and the Crédit National — extend long-term credits on their own account out of resources derived from deposits, new issues, Treasury advances, etc.

In 1955, the financial surplus of the household sector (together with the surplus of the financial institutions) had been more than sufficient to compensate for the net borrowing of both the enterprise sector and the public sector — with room to spare, as evidenced by a substantial external surplus. This situation has since changed radically. One important reason has been the rise in the rate of private fixed-capital formation, which appears to have been facilitated and stimulated to a considerable extent by an increasing flow of public funds of a medium and long-term character. As things turned out, these funds could not be supplied from public saving, since at the same time the central government's own income-expenditure position was deteriorating as a result of growing military outlays, declining foreign aid, rising social transfer payments and higher subsidies. Hence the deterioration in the savings position of the central government, together with the increase in the lending activity of both the government and the public credit institutions, involved — directly or indirectly — a considerable degree of inflationary credit expansion and led to a foreign deficit of disturbing proportions.

In Germany, net domestic capital formation increased substantially during the early phases of the international investment boom, having risen from 13.3 per cent. of the net national product in 1953 to 18.5 per cent. in 1955. In the course of 1955, however, an important complicating factor

supervened. Other countries, as they began to run up against the limits of their own productive capacity, turned increasingly to Germany for supplies of investment goods, thereby accentuating the pressure of demand in that country. In these circumstances, the anti-inflationary measures employed in Germany in 1955 and early 1956 led both to a levelling-off of net domestic investment and, concurrently, to the shifting of a greater proportion of output into export channels. After having gone up by one-third between 1954 and 1955, net fixed domestic investment increased by 10 per cent. in 1956, this rise being offset by a slowing-down in the accumulation of stocks. Net national saving, however, continued to rise — a development which was reflected in an increase in net foreign investment from DM 2.2 milliard in 1955 to DM 4.2 milliard in 1956. Viewed from the savings angle, the most important disinflationary force between 1953 and 1956 was the growth in private saving, which increased from 8.3 per cent. of the net national product in 1953 to 11.1 per cent. in 1955, but dropped off somewhat to 10.1 per cent. in 1956. Public saving showed an almost equally impressive increase, however, having risen more steadily from 8.1 per cent. of the net national product in 1953 to 9.3 per cent. in 1956.

From 1956 to 1957 net domestic investment fell from 16.8 to 15.5 per cent. of the net national product, this being the result of an absolute decline in fixed capital formation which was only partly offset by a greater accumulation of stocks. On the other hand, net national saving, despite a slight relative decrease from 19.4 to 18.7 per cent. of the net national product, rose in absolute terms and thus contributed to a continued expansion in net foreign investment from DM 4.2 milliard to DM 5.4 milliard (see table). At the same time there was a striking change in the pattern of saving, public saving declining from DM 16.3 milliard to DM 14.6 milliard, while that of private households rose from DM 6.9 milliard to DM 10.9 milliard.

The fall in the rate of public saving in 1957 was attributable mainly to an increase in civil expenditure and to a marked rise, due largely to a reform of the pensions system, in income transfers to private households. Total military expenditure (excluding prepayments for armaments imports) was, at DM 6.0 milliard, only slightly higher than in 1956.

Owing largely to an increase in capital transfers to foreign countries, the public authorities' financial surplus declined somewhat more sharply than did their net saving, dropping from DM 10.7 milliard in 1956 to DM 7.9 milliard in 1957. This diminution, however, resulted in only a slight curtailment of the usual large flow of public funds to the enterprise sector for investment purposes. Direct loans by the public authorities were actually higher in 1957, having risen to DM 4.3 milliard from DM 3.6 milliard in the preceding year. On the other hand, the public authorities' medium and long-term deposits with the credit institutions (which must normally use these funds for loans of a stipulated character) rose by only DM 3.1 milliard in 1957, compared with DM 4.3 milliard in 1956. Moreover, the public sector's net purchases of securities (mainly mortgage and communal bonds) declined from

DM 1.7 milliard in 1956 to DM 1.0 milliard in 1957, largely because of a reduction in the financial surpluses of the social insurance institutions. The greater part of the public funds made available via the afore-mentioned three channels are used to finance new housing, but a fair amount — particularly of the resources lent by the Equalisation of Burdens Bank and the Reconstruction Finance Corporation — also goes to finance investment in various branches of industry and agriculture.

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

Items	Years	Public authorities	Enterprises ¹	Households ¹	Rest of the world ²
		in milliards of Deutsche Mark			
Net saving	1956	16.3	10.8	6.9	.
	1957	14.6	9.3	10.9	.
Net capital transfer receipts	1956	— 0.1	— 0.7	0.4	— 0.5
	1957	— 1.0	—	0.4	— 0.6
Net investment (—)	1956	— 5.5	— 23.9	—	.
	1957	— 5.7	— 23.2	—	.
Financial surplus (+)	1956	10.7	— 13.8	7.3	4.2 ³
	1957	7.9	— 13.9	11.3	5.4 ³
Corresponding changes in financial assets (increase +) and liabilities (increase —)					
Currency and sight deposits	1956	1.3	1.2	0.9	— 0.5
	1957	— 2.2	1.6	1.3	— 0.2
Time deposits, savings deposits and other medium and long-term funds	1956	4.5	1.9	2.7	— 0.1
	1957	4.3	3.2	4.8	—
Bank credit					
Short-term	1956	— 0.1	— 1.4	— 0.2	0.1
	1957	— 0.4	— 2.2	— 0.1	0.1
Medium and long-term	1956	— 1.3	— 7.4	—	—
	1957	— 1.2	— 6.0	—	—
Net purchases (+) or sales (—) of securities	1956	1.7	— 1.0	0.6	0.2
	1957	1.0	— 1.7	1.4	0.2
Net increase in claims on (+) or liabilities towards (—)					
Building societies	1956	—	— 1.9	2.0	—
	1957	—	— 2.1	2.6	—
Insurance companies	1956	— 0.1	— 0.6	1.0	—
	1957	— 0.1	— 0.4	1.3	—
Other domestic debtors (or lenders)	1956	3.6	— 3.6	.	.
	1957	4.3	— 4.3	.	.
Foreign debtors (or lenders)	1956	1.1	— 1.2	—	— 0.1
	1957	2.2	— 1.9	—	0.3
Gold and foreign exchange reserves	1956	.	.	.	4.7
	1957	.	.	.	5.2

¹ In their rôle as savers, individuals are regarded as being part of the private-household sector, while, as purchasers of capital goods (i.e. new housing), they are classed as enterprises. ² Includes foreign countries, West Berlin and eastern Germany. ³ Net foreign investment (i.e. balance of payments on current account). Source: Preliminary estimates of the Deutsche Bundesbank; revised figures will be published in the Bundesbank's Monthly Report for June 1958.

The decline in the public sector's financial surplus had its counterpart mainly in the fact that, whereas in 1956 the authorities had increased their holdings of currency and sight deposits by DM 1.3 milliard, they reduced these holdings by DM 2.2 milliard in 1957. This drawing upon monetary assets took the form of a reduction in the public authorities' deposits held with the central bank (which decreased by DM 2.6 milliard in 1957) and was closely associated with a swing in the Federal Government's cash budget from a surplus of DM 870 million in the calendar year 1956 to a deficit of DM 2.4 milliard in 1957. The deterioration in the cash budget was, however, only partly attributable to increases in civil expenditure and transfers to private individuals — i.e. to a rise in payments which more or less directly affect the flow of domestic incomes. A large proportion of the rise in expenditure was due to an increase in foreign payments: capital transfers, debt repayment, foreign loans and, most important, prepayments for armaments imports, the latter (which are included in the table as a net increase in claims on foreigners) having risen sharply to DM 2.1 milliard in 1957.

In the enterprise sector, undistributed profits declined from DM 11.1 milliard in 1955 to DM 10.8 milliard in 1956, and again to DM 9.3 milliard in 1957. As, however, net investment decreased closely in line with retained earnings, the sector's net financial deficit remained unchanged at approximately DM 14 milliard. In 1957 the greater part of this deficit — though not quite as much as in 1956 — was again covered by funds made available by the public authorities out of tax revenue. Short-term bank credit rose roughly in line with net investment in stocks, while medium and long-term bank credit (the latter being principally for housing, which in the table is included in the enterprise sector) increased less than in 1956. Net sales of securities to other sectors increased markedly from 1956 to 1957, as did also the inflow of capital from abroad — and these two changes were partly reflected, owing to the weakened demand for capital goods in 1957, in a pronounced rise in liquidity in the form of sight and time deposits.

In the household sector, disposable income after taxes increased by approximately 10.5 per cent. from 1956 to 1957, compared with a rise of 7.5 per cent. in the gross national product. This disproportionate growth in disposable income was due partly to a rise in wage and salary incomes but mainly to an increase of over 20 per cent. in transfer receipts. It was accompanied by — but does little to explain — a remarkable increase in household saving, which rose from 5.8 to 8.2 per cent. of the sector's disposable income and which went mainly into sight and savings deposits. There was also, however, an impressive rise in net purchases of securities, which — after several years of slow increase — advanced sharply from DM 600 million in 1956 to DM 1.4 milliard in 1957. In addition, net claims on building societies and insurance companies showed a larger rise than in the previous years.

Gross placings of shares and fixed-interest-bearing securities amounted, in terms of nominal value, to DM 5.8 milliard in 1957, compared with

DM 4.4 milliard in 1956 and DM 5.2 milliard in 1955. A large proportion of these securities (consisting mainly of mortgage and communal bonds), being both issued and taken up by financial institutions, do not appear in the table on page 40. Placings of mortgage and communal bonds (together with certain loans to public authorities and bonds of special credit institutions) rose from about DM 2.0 milliard in 1956 to DM 3.2 milliard in 1957, while the credit institutions' investments in securities (including syndicate participations) increased by DM 270 million in 1956 and DM 1.4 milliard in 1957. The rise in security purchases by the credit institutions in 1957, which was made possible by the large growth in personal savings deposits, more than offset the decline in purchases by the social insurance institutions. Moreover, the private insurance companies and building societies, which also benefited from the increased flow of personal savings, appear to have bought more securities than before. Hence, the marked increase in personal savings contributed, directly and indirectly, to a considerable expansion in capital-market activity in 1957. Finally, net purchases of securities by foreigners against liberalised capital marks rose to DM 600 million in 1957.

In the early months of 1958, the formation of private savings appears to have continued at a vigorous rate. Capital-market activity rose to still higher levels and was not, as in 1955, based on the stimulus of special tax incentives. Net foreign investment, moreover, was maintained at about the same rate as in 1957 and showed no clear signs of diminishing.

In 1955 the Netherlands appeared to be in a strong economic position, as was evidenced by a current-account balance-of-payments surplus of Fl. 840 million, representing a rate of net foreign investment of 3.1 per cent. of the net national product. However, as a result of a rapid expansion of both public and private investment, the domestic economic situation changed radically between 1955 and 1956. Net domestic investment rose from 17.3 to 20.9 per cent. of the net national product, while net national saving declined from 20.4 to 18.7 per cent., net foreign investment dropping to a negative figure of Fl. 650 million, or 2.3 per cent. of the net national product. Moreover, the deterioration on external account was not attributable to the same extent as in some preceding years to an increase in domestic stocks of imported raw materials. Between 1956 and 1957 net domestic investment rose more slowly (its ratio to the net national product remaining unchanged) and was rather more than matched by an increase in net national saving, the foreign deficit (on a transactions basis) having fallen from Fl. 650 million to Fl. 520 million (see table).

Although the data in the table suggest that the increase in investment in 1957 was concentrated in the private sector, it must be borne in mind that the figures for this sector also include investments in public utilities and housing which are financed by means of large-scale capital transfers from the public authorities to the private sector. These transfers (which also include war-damage and flood compensation) increased from Fl. 1,640 million in 1956 to Fl. 1,890 million in 1957; and their growth, both in 1957 and in earlier

years, must be regarded as having contributed significantly to the country's investment boom.

The increase in investment outlays by the local authorities has been particularly marked in recent years, both within their own sector (public works, education, etc.) and in the form of the above-mentioned capital transfers. In consequence, the local authorities' financial deficit rose from Fl. 670 million in 1953 to Fl. 1,220 million in 1956, and then again to Fl. 1,520 million in 1957. Over the same period, the financing difficulties of the local authorities increased to an even greater extent. Most important,

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

Items	Year	Central government	Local authorities	Institutional investors ¹	Private sector	Totals
		In millions of florins				
Net saving	1956	880	200	1,930	2,320	.
	1957	800	260	1,890	2,920	.
Net capital transfer receipts	1956	-790 ²	- 850	—	1,640	—
	1957	-810 ²	-1,080	—	1,890	—
Net investment (—)	1956	-160	- 470	—	-5,350	.
	1957	-150	- 460	—	-5,790	.
Financial surplus (+)						
Transactions basis ³	1956	- 70	-1,120	1,930	-1,390	- 650 ⁵
	1957	-160	-1,260	1,890	- 970	- 520 ⁵
Cash basis ³	1956	110	-1,220	1,820	-1,290 ⁴	- 570 ⁵
	1957	320	-1,520	1,650	- 790 ⁴	- 340 ⁵
Corresponding changes in financial assets (increase +) and liabilities (increase —)						
Primary liquid resources ⁶	1956	—	- 50	- 20	- 290	
	1957	—	—	30	- 230	
Secondary liquid resources ⁷	1956	330	- 240	- 220	190	- 990 ⁸
	1957	-140	- 400	270	600	- 270 ⁸
Bank credit	1956	- 90 ⁹	- 170	80	- 510	
	1957	-220 ⁹	20	10	- 210	
Monetary credit by central government to local authorities	1956	—	—	.	.	.
	1957	530	- 530	.	.	.
Long-term credit	1956	-240	- 760	1,980	-1,100	- 120
	1957	- 60	- 610	1,340	- 940	- 270
Borrowing (—) or lending (+) abroad	1956	110 ¹⁰	—	—	430 ¹¹	540
	1957	210 ¹⁰	—	—	- 10 ¹¹	200

¹ This sector includes, inter alia, the savings banks, life assurance companies, pension funds and social insurance funds. ² Excludes capital transfers to foreign countries and, in 1957, monetary credits to the local authorities. ³ The differences between the transactions figures and the cash figures are attributable mainly to differences between taxes due and taxes actually collected. ⁴ Includes retained profits and net transactions in bonds and shares by the central bank and the commercial banks. ⁵ Net foreign investment (i.e. balance of payments on current account). ⁶ Currency and sight deposits. ⁷ Time deposits, Treasury bills, tax certificates, etc. ⁸ Total domestic liquidity surplus (+) or deficit (—) (equals net increase or decrease in gold and foreign exchange holdings). ⁹ Includes short-term borrowing abroad. ¹⁰ Includes capital transfers to foreign countries. ¹¹ Consists mainly of net direct investments abroad.

Sources: Central Plan Bureau, Central Economic Plan 1958; Nederlandsche Bank, Report for the year 1957.

owing to the existence of a legal ceiling ($4\frac{1}{4}$ per cent.) on the maximum interest rate payable by the municipalities for long-term loans, the fact that interest rates were kept at a high level in 1957 had the effect of barring the local authorities from the capital market. Consequently, the municipalities resorted increasingly to short-term financing, in the form both of floating debt and of short-term credits at high interest rates from institutional and private lenders. In the third quarter, however, restrictions were also placed on this form of borrowing, and the financial gap therefore had to be filled from then on largely by special means. Early in 1957 the Bank for Netherlands Municipalities had concluded an agreement with the institutional lenders for direct loans totalling Fl. 560 million to be taken up in 1957 and 1958. In addition, this bank (which was exempted from the regulation concerning maximum long-term borrowing rates) was permitted in October 1957 to float a 6 per cent. National Housing Loan, which placed an additional Fl. 390 million at the disposal of the municipalities and made possible the repayment of a large amount of short-term credit. Moreover, the central government itself made a special cash advance of Fl. 530 million to the Bank for Netherlands Municipalities for allocation to the local bodies for housing purposes, these funds being disbursed mainly in the second half of the year (see Chapter III).

Thanks largely to a programme for accelerating tax payments, the central government was able in 1957 to record a modest improvement in its financial surplus (on a cash basis), despite a decline in its net saving and an increase in capital transfers. This improvement was, however, by no means sufficient to meet the increased requirements resulting from the central government's assumption of responsibility for meeting part of the growing financing needs of the local authorities. Since, moreover, private demand for long-term funds was increasing at the same time as the supply of such funds was shrinking, the central government had less easy access to the capital market in 1957, its net receipts from this source dropping to Fl. 60 million, compared with Fl. 240 million in 1956. Thus in 1957 the central government, after having experienced a notable improvement in its liquidity position in 1956, found it necessary, over the year as a whole, to increase its short-term borrowing.

In the private sector, the financial deficit (on a cash basis) declined from Fl. 1,280 million in 1956 to Fl. 790 million in 1957. This improvement was, however, to some extent illusory: the greater part of private net saving actually appears in the table as net saving by the institutional investors, and in 1957 private saving passing through that sector declined, while the net saving shown for the private sector proper recorded an increase. On the one hand, deposits with the savings institutions (which are included in the institutional-investors sector) showed a net increase of only Fl. 90 million in 1957, against a rise of Fl. 400 million in 1956 and one of Fl. 560 million in 1955. On the other hand, in the private sector proper, holdings of secondary liquid assets rose by Fl. 600 million in 1957, compared with an increase of only Fl. 190 million in 1956. Although these changes do not appear to have

involved any direct shift from savings deposits to secondary liquid resources, they were both presumably influenced in part by the general tightness of liquidity during most of the year, brought about by the continued decline — under the combined impact of the foreign deficit and domestic credit restraint — in the sector's money holdings and in the availability of bank credit. The decline in new savings deposits, which tend to be held mainly by private individuals, occurred mostly in the second half of the year and was probably associated with an increase in the purchase of securities (e.g. the National Housing bonds), which had become a relatively attractive form of investment. Again, the rise in the sector's holdings of secondary liquid resources (primarily time deposits and Treasury bills) may have been largely accounted for by business firms, which not only received the proceeds of a substantially increased volume of new security issues in 1957 but also probably benefited from the sudden large inflow of Fl. 440 million in gold and foreign exchange during the last quarter of the year. Finally, these various changes were also associated with a sharp reduction in the private sector's net lending abroad in 1957.

The private sector's net long-term borrowing from other sectors fell from Fl. 1,100 million in 1956 to Fl. 940 million in 1957. While this decline may in part reflect an increase in private-sector purchases of public issues, it was also due to a diminution in the flow of direct long-term loans (mainly to finance private housing) from the institutional investors. The institutional investors' net long-term lending totalled only Fl. 1,340 million in 1957 as against Fl. 1,980 million in 1956, the principal reasons for the decline being the already-explained drop in new deposits with the savings banks and also an abrupt change from liquidation to accumulation of secondary liquid resources (principally Treasury bills). For their part, industrial firms, which have in recent years become increasingly dependent upon outside funds, were able in some measure to satisfy their growing needs by means of new issues, a good proportion of these issues (which consisted largely of bonds) having been taken up within the private sector.

Towards the end of 1957, monetary and fiscal restraints, together with the influence of the U.S. recession, combined to bring about a levelling-off of business activity. In the first quarter of 1958, despite uncertainties regarding the economic outlook abroad, the foreign exchange reserves of the Netherlands continued to rise at an impressive rate.

The economy of Italy has in recent years been characterised by a steady and relatively well-balanced expansion in which inflationary symptoms, though not absent, have been limited in extent.

Although it is not possible to trace inter-sector financial relationships in detail, the following table helps to show the broad trend of developments since 1955. In the private sector, net saving declined from 1955 to 1956, while net investment rose slightly, the financial surplus having consequently diminished from Lit. 500 to 340 milliard. This fall was almost compensated,

however, by a rise in the net saving of the central government, which helped to reduce its financial deficit from Lit. 355 to 200 milliard. Subsequently, from 1956 to 1957, net investment rose substantially in the private sector, but net saving (plus capital transfer receipts) increased even more, thus raising the sector's financial surplus to Lit. 380 milliard. This increase, together with a further improvement in the financial position of the central government, was accompanied by a noteworthy shift from a deficit to a surplus in the balance of payments on current account.

Italy: Saving, investment and financial surplus or deficit, by sectors.

Items	Years	Central government	Local authorities and other public bodies	Private sector	Rest of world
		round figures, in milliards of lire			
Net saving	1955	80	75	1,640	.
	1956	205	70	1,520	.
	1957	280	80	1,716	.
Net capital transfer receipts	1955	- 350	255	100	.
	1956	- 320	240	80	.
	1957	- 350	260	90	.
Net investment (-).	1955	- 80	- 500	- 1,235	.
	1956	- 85	- 500	- 1,265	.
	1957	- 85	- 520	- 1,425	.
Financial surplus (+) .	1955	- 355	- 175	500	- 30*
	1956	- 200	- 190	340	- 50*
	1957	- 150	- 180	380	45*

* Net foreign investment, equal to balance of payments on current account (plus unilateral transfer receipts, which are not included in the table on page 12 and the graph on page 27).

In Italy the state plays an important rôle in channelling funds into particular investment uses. This is accomplished to a large extent by means of capital transfers, which amounted to Lit. 350 milliard in 1957. As in earlier years, the bulk (Lit. 190 milliard) of these transfers went to special public bodies, the most important of these being the Development Fund for the South (Cassa per il Mezzogiorno), which alone received Lit. 90 milliard in this form during the year. In addition, the local authorities proper (the regions, provinces and municipalities) received slightly over Lit. 50 milliard, while the autonomous state enterprises (which are included in the local-authority sector and consist of the state railways, the postal and telecommunications systems, the state monopolies, etc.) were given over Lit. 15 milliard. Finally, a large share of the capital transfers (Lit. 90 milliard) went, as usual, to productive enterprises (which in the table are included in the private sector); these consist largely of firms which are owned or controlled by the government through the Institute for Industrial Reconstruction (I.R.I.) and which form an important, and often a major, part of various key sectors of the economy (e.g. shipping and shipbuilding, iron and steel, engineering, electricity and telephone communications). Altogether, the public sector's own net investment plus its net capital transfers to the private sector amounted in 1957 to almost Lit. 700 milliard, or well over one-third of net domestic investment.

In 1955, when the central government's net saving was just equal to its own net investment, its financial deficit (Lit. 355 milliard) was the same as the total of its capital transfers to other sectors. The central government, however, not only made substantial capital transfers but also supplied the rest of the economy with net credits amounting altogether to Lit. 55 milliard, with the result that its borrowing requirements totalled approximately Lit. 410 milliard. Of this amount, Lit. 235 milliard was obtained in the form of short and long-term credit from the banks, while Lit. 135 milliard was raised in the capital market and almost Lit. 35 milliard consisted of long-term credits from abroad.

In 1957 the total of the central government's net capital transfers and of its own net investment was the same as in 1955. Consequently, the marked rise in the sector's net saving from Lit. 80 milliard in 1955 to Lit. 280 milliard in 1957 was fully reflected in a decline in the financial deficit, which dropped from Lit. 355 milliard to Lit. 150 milliard. Since net credits to other sectors also diminished slightly, the central government's borrowing showed an impressive decrease. Short and long-term bank credit amounted to Lit. 135 milliard, while net borrowing from the capital market by means of security issues totalled only Lit. 65 milliard. Net credits from abroad, at Lit. 15 milliard, were also less than in 1955.

In the sector comprising the local authorities and other public bodies, net investment remained relatively stable from 1955 to 1957, as did also net saving and net capital transfer receipts. In this connection, however, it is noteworthy that the investment outlays of the Development Fund for the South (which was established in 1950), after rising to a peak of Lit. 150 milliard in 1955, thereafter tapered off to Lit. 145 milliard in 1957. The financial deficit of the local-authority sector, which ranged between Lit. 175 and 190 milliard from 1955 to 1957, has been covered in two principal ways. First, the Central Post Office Savings Fund invests practically all its new resources, which in 1957 amounted to over Lit. 105 milliard (and were supplemented by the use of Lit. 30 milliard in funds held with the Treasury), in loans to the local authorities and other public bodies. Secondly, the bulk of the net credit provided by the central government to the rest of the economy, of which mention has already been made, also appears to have gone to this sector.

In the private sector, investment in stocks slowed down from Lit. 190 milliard in 1955 to Lit. 75 milliard in 1957, while net fixed capital formation rose from Lit. 1,045 to 1,350 milliard. The increase in fixed investment was the result of an expansion in the expenditure both of publicly controlled undertakings (mainly the I.R.I. and E.N.I. industrial groups) and of privately owned enterprises. During this period the growth of the money supply (a considerable proportion of which is held by the business sector) tended to slow down, while savings deposits with the commercial and savings banks continued to rise — a development which suggests that private households were supplying an increasing volume of finance to business.

The funds passing through the capital market and the specialised credit institutions (e.g. the Istituto Mobiliare Italiano, Mediocredito, etc.) totalled approximately Lit. 430 milliard in both 1955 and 1956 and declined slightly to Lit. 410 milliard in 1957. As a result, however, of the substantial rise in the central government's net saving, the share of these funds absorbed by Treasury borrowing dropped from over one-third in 1955 to only one-eighth in 1957. The amount of long-term funds going to the private sector showed a corresponding increase, which mainly took the form of a rise in new share issues (including those of the I.R.I. and its financial affiliates) from Lit. 165 milliard in 1955 to Lit. 240 milliard in 1957. The specialised institutions' issues of bonds as a basis for lending to borrowers other than the central government remained relatively stable at about Lit. 140 milliard from 1955 to 1957. There was, however, an appreciable increase in bond issues by the I.R.I. (from Lit. 15 to 50 milliard) and the E.N.I. (the state agency for natural gas and petroleum development, which raised Lit. 20 milliard in 1956 and the same again in 1957), and also in those of private enterprise (which rose from below Lit. 5 milliard to Lit. 30 milliard).

Although in Italy the central government has a far-reaching interest and influence in the field of investment, the institutional arrangements are such that in recent years there has been relatively little investment-financing by means of an inflationary increase in bank credit. The special credit institutions have had to rely upon funds borrowed in the capital market and upon advances or grants from the Treasury. The latter, in turn, has limited its investment-financing activity largely to funds derived from its own saving, from the domestic capital market and from foreign loans.

In the United States, data on the flow of funds are published for ten separate economic sectors and include information on intra-sector as well as inter-sector money flows.* At the time of writing, such data are available only for 1956, but they can be supplemented, in order to obtain a picture of developments in 1957, by partial data from other sources. In the table, net inter-sector borrowing or lending is shown as the difference between the given sector's current surplus of investible funds and its use of such funds for purchases of fixed capital and inventories. It should be noted, first, that personal saving taking place through insurance channels appears in the table as part of the loanable surplus of the insurance sector and, secondly, that the financial surplus of each sector is often the resultant of large and partly compensating changes in individual categories of financial assets and liabilities. It may therefore be best to study the table in conjunction with the graph on page 51, which shows sector trends in various categories of net financial assets and liabilities (excluding corporate shares).

In the consumer sector, the outstanding feature of recent years has been the volatility of demand for capital goods (including both housing and consumer durable goods). The sector's current investible surplus increased steadily from

* See the Federal Reserve Board's basic study, *Flow of Funds in the United States, 1939-1953* (December 1955).

1954 onwards, while capital acquisitions rose sharply in 1955, declined in 1956 and levelled off in 1957. Therefore, net inter-sector lending, which had been steadily positive between 1951 and 1954, fluctuated sharply between 1954 and 1956, rising to over \$5 milliard in the latter year and to a figure somewhat higher still in 1957. As may be seen in the graph, the financial counterpart of this trend has been a large and rather steady growth in time deposits, savings and loan shares, and bond holdings, partly offset by a more irregular expansion in mortgage and consumer credit.

United States: Net inter-sector borrowing and lending, 1954-56.

Sectors	Years	Current investible surplus ¹	Less: capital acquisitions ²	Equals: net inter-sector lending or borrowing ³
		In milliards of dollars		
Consumer	1954	44.0	42.0	2.0
	1955	50.1	52.3	- 2.2
	1956	54.9	49.9	5.2
Corporate enterprise	1954	16.5	21.3	- 4.9
	1955	26.6	29.3	- 1.9
	1956	22.3	35.9	- 13.4
Non-corporate enterprise	1954	3.9	4.8	- 1.1
	1955	2.4	5.3	- 2.9
	1956	1.8	4.1	- 2.4
Farm enterprise	1954	2.5	3.1	- 0.6
	1955	2.1	2.9	- 0.8
	1956	1.7	2.3	- 0.7
Federal Government	1954	1.4	3.5	- 2.2
	1955	3.6	2.8	0.7
	1956	10.1	2.8	7.1
State and local government	1954	7.5	9.1	- 1.6
	1955	7.9	10.0	- 2.0
	1956	8.7	11.1	- 2.5
Banking	1954	0.9	0.2	0.6
	1955	0.9	0.3	0.7
	1956	1.4	0.3	1.1
Insurance	1954	8.1	0.4	7.8
	1955	8.4	0.4	7.9
	1956	8.6	0.4	8.3
Other financial institutions	1954	1.9	2.6	- 0.9
	1955	1.7	2.7	- 1.0
	1956	1.2	2.8	- 1.5
Rest of the world	1954	0.5	-	0.5 ⁴
	1955	0.5	-	0.5 ⁴
	1956	- 1.3	-	- 1.3 ⁴
Totals	1954	66.9	67.0	- 0.1 ⁵
	1955	103.9	105.0	- 1.0 ⁵
	1956	109.4	109.5	- 0.1 ⁵

¹ Represents mainly the excess of current income receipts over current outlays (including insurance premiums and benefits and tax payments and refunds, but excluding capital acquisitions). ² Includes a small volume of inter-sector transactions in old capital assets. In the figures for the consumer sector, purchases of durable goods are treated as acquisitions of capital goods. ³ Derived by difference and hence, because of statistical errors and omissions, not always identical with direct estimates of overall net changes in financial assets and liabilities (see graph on page 51). ⁴ A positive figure represents a net inflow of foreign capital plus net foreign purchases of gold. ⁵ Statistical discrepancy.

Source: Federal Reserve Bulletin, October 1957.

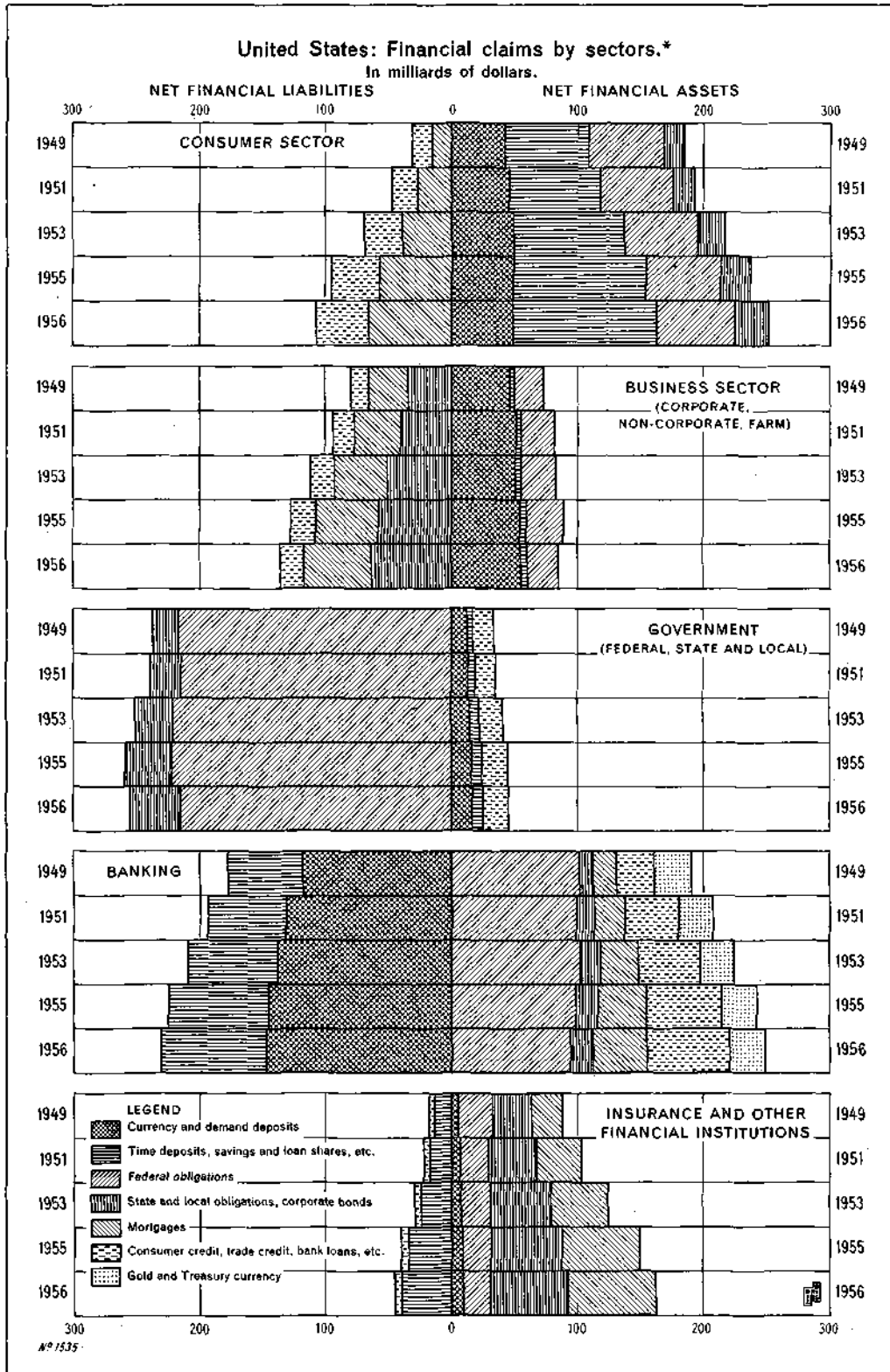
In the corporate sector, outlays on fixed capital and inventories increased rapidly between 1954 and 1956. Higher profits and additions to tax reserves led to a reduction in the net financial deficit from \$4.9 milliard in 1954 to \$1.9 milliard in 1955; but borrowing outside the sector (principally by means of security issues and bank and trade credit) rose from \$10.5 milliard to \$17.6 milliard, being associated with an increase in the net acquisition of financial assets (mainly government securities and claims in respect of consumer and trade credit) from \$5.6 milliard to \$15.8 milliard. In 1956, however, when the net financial deficit rose sharply to \$13.4 milliard, external borrowing actually dropped below the level of the preceding year (to \$14.9 milliard), this decline being attributable to a drastic fall in the net acquisition of financial assets (which increased by only \$3.5 milliard). In 1957 the sector's current investible surplus probably remained about the same as in 1956, while total capital expenditure declined somewhat, a further expansion of fixed capital outlays being more than offset by a marked fall in the rate of inventory accumulation. On the financial side, these changes were reflected in a sharp drop in inter-sector borrowing in the form of bank credit and mortgage loans and an acceleration of borrowing by means of net new issues of stocks and bonds, which rose from \$7.2 milliard in 1956 to \$9.8 milliard in 1957.

The Federal Government played an important anti-cyclical rôle between 1954 and 1956. Owing to a marked increase in receipts both from profit taxes and individual income taxes, revenue outstripped expenditure, with the result that by 1956 there was a large financial surplus. This surplus, which was used mainly to repay publicly-held Federal debt, helped to compensate for the growth in the financial needs of the business sector. In 1957 tax revenues continued to rise, but an acceleration in expenditure led to a substantial reduction in the cash surplus and thus also in the amount of debt repaid.

The State and local governments tend to finance a large part of their capital expenditure out of tax revenues. Between 1954 and 1956, however, the amount of tax funds available increased less rapidly than did capital outlays — a state of affairs which led to a growing, though still modest, financial deficit. The deficits were financed primarily by net new issues of State and local obligations, which were taken up mainly by insurance companies, the banks being large purchasers only in 1954. Investment expenditure by State and local authorities increased further in 1957, but net borrowing by means of new security issues appears to have been about the same as in 1956.

The financial institutions comprise the many and various channels through which the lending and borrowing operations of the private sector are carried out. The growth in the deposit liabilities of the banking sector

Note. In preparing the graph, it has been necessary for convenience of presentation to carry out three kinds of netting operations which tend to detract from the significance and usefulness of the more detailed basic data published by the Federal Reserve Board: (i) for each type of financial claim, the change in assets held by the sector has been offset against the change in liabilities (e.g. consumer holdings of mortgages are offset against consumer mortgage liabilities); (ii) certain categories of financial claims have been combined (e.g. consumer credit, bank credit, trade credit, etc.); and (iii) certain sectors have been combined (e.g. corporate business, non-corporate business and the farm sector). In addition, in the government sector, a small amount of Treasury currency liabilities has been included among Federal obligations, while, on the assets side, the item "time deposits" also includes a small volume of mortgage holdings. Finally, the "rest of the world" sector has been omitted from the graph.

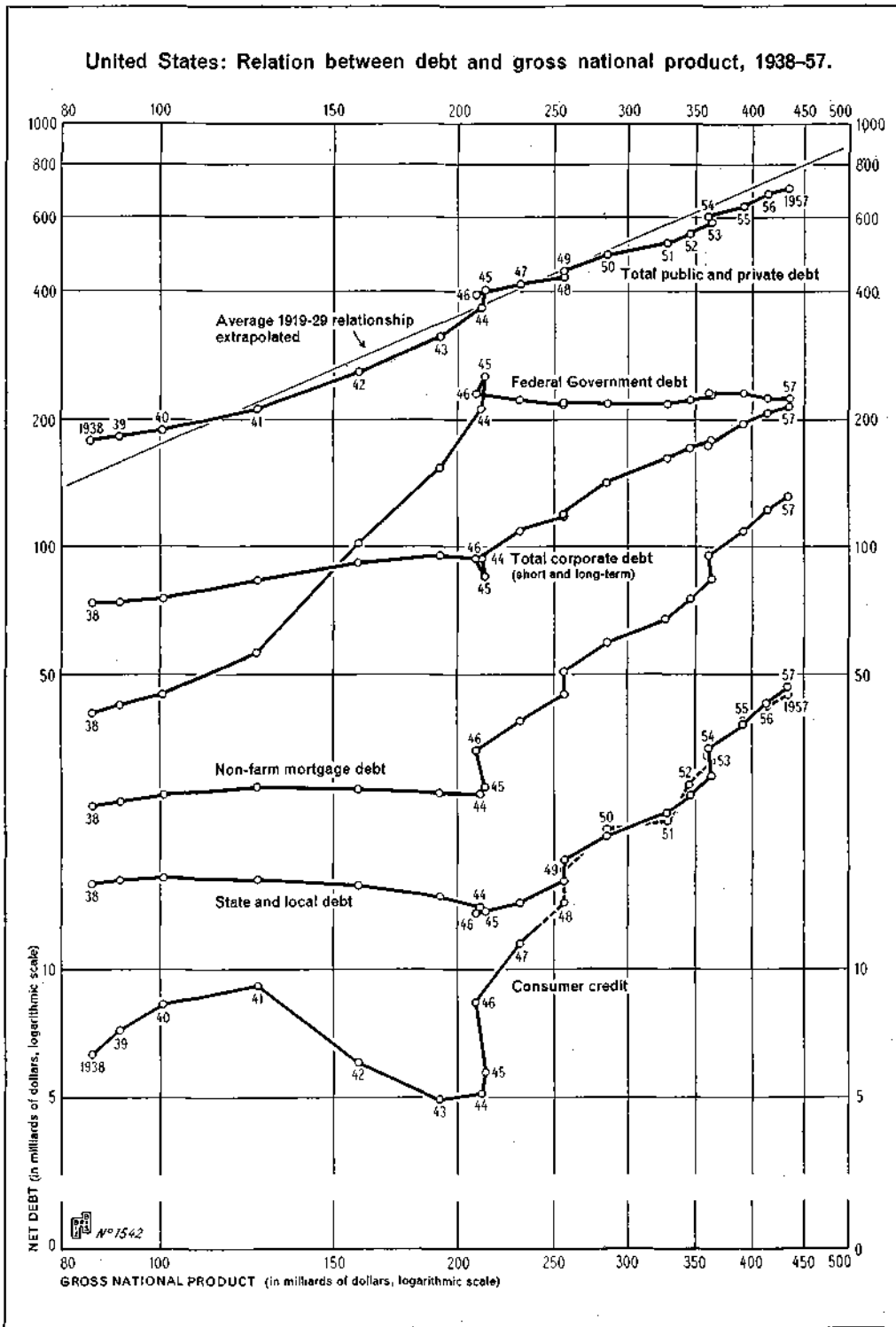


* See note on opposite page.

(consisting mainly of the Federal Reserve System, the commercial banks and the mutual savings banks) was accompanied by a large and continuous expansion of credit between 1949 and 1956. Between 1954 and 1956, moreover, the commercial banks reduced their holdings of Federal obligations by almost \$10 milliard, thus increasing still further their capacity to lend in other directions. From the end of 1956 to the end of 1957, demand deposits at the commercial banks dropped by some \$5 milliard, while time deposits rose by about the same amount and holdings of U.S. Government securities declined only slightly. Correspondingly, the lending operations of the commercial banks expanded much less than in the preceding year, particularly as regards business loans and mortgage credit. On the other hand, investments in corporate, State and local government securities, whose yields rose appreciably, increased by \$1.4 milliard, after a decline in 1956. Mutual savings banks, the total of whose time-deposit liabilities went up by \$1.7 milliard (against \$1.9 milliard in 1956), increased their lending potential by reducing their holdings of U.S. Government securities; they, like the commercial banks, made fewer mortgage loans than in 1956 and invested more in corporate and municipal securities.

In the banking sector, holdings of U.S. Government bonds have continued to be the largest single portfolio asset, even allowing for the fact that the holdings of the Federal Reserve banks make up well over one-quarter of the total. The relative importance of Federal obligations has been diminishing, however, as these have been giving way increasingly to business loans, consumer credit and mortgage loans. The banks hold corporate bonds only in small quantities, but have at times been important buyers of State and local bonds, having had in their possession in 1956 well over one-quarter of the total amount outstanding.

In contrast, corporate bonds are the most important portfolio asset of the insurance sector, which held approximately three-quarters of the total outstanding in 1956. In decreasing order of importance, the other main asset items are mortgages, U.S. Government obligations, and State and local obligations. The insurance sector has, for a longer period of time than the banking sector, gradually been moving out of Federal obligations into other more remunerative forms of lending, with mortgages and municipal security holdings showing the most rapid expansion. Within the insurance sector, the sub-group showing the highest rate of growth in recent years has been that comprising self-administered pension plans, the funds collected under these systems being largely invested in various types of corporate securities. According to estimates made by the Securities and Exchange Commission, these pension systems' total assets, at book value, climbed from \$6.9 milliard in 1951 to \$16.6 milliard in 1956. At the same time, the share of their total assets held in the form of U.S. Government securities dropped from 32 per cent. to 14 per cent., while the share of corporate bonds rose from 45 per cent. to 52 per cent. and that of corporate shares from 12 per cent. to 23 per cent. Finally, among the "other financial institutions", special mention must be made of personal savings deposited with the savings and loan institutions;



Note: According to the Survey of Current Business published by the U.S. Department of Commerce (October, 1950, p. 13), from which the data for the above graph were obtained, "Net public and private debt outstanding is a comprehensive aggregate of the indebtedness of borrowers after elimination of certain types of duplicating governmental and corporate debt." Farm debt and commercial and financial debt are omitted from the above graph but are shown in the graph on page 56.

this type of saving has risen buoyantly since 1949 and has been channelled primarily into mortgage lending.

Both in the consumer sector and the business sector net financial liabilities have grown more rapidly than net financial assets over recent years, and in the consumer sector there has been a distinct movement towards less liquid forms of assets. In the financial sector, too, the pattern of financial assets reflects a gradually diminishing degree of liquidity. These trends suggest that the investment boom of recent years has been partly fed out of excess liquidities still remaining as a legacy of war-time deficit-financing.

The graphs on pages 53 and 56 afford a comparison of the trends, in relation to the gross national product, of net public and private debt in the period since the second world war compared with the relationships which existed in 1919-29.

Over long periods of time there is a high degree of constancy in the relationship between the growth of total net debt (public and private) and that of the gross national product. During the last two decades the line showing the expansion of total net debt in relation to the gross national product has, except for cyclical variations, moved more or less parallel to that showing the extrapolated average relationship of the period 1919-29. This is not altogether surprising, for the creation of debt is an integral part of the saving-investment process. Since saving and investment decisions are to a large extent made by different economic units, borrowing by prospective spenders should always correspond to the flow of new loanable savings if an equilibrium rate of growth is to be maintained.

In an inflation, net debt formation tends to exceed new financial saving, while the opposite is the case in a recession. However, the rate at which debt grows during an inflation may vary considerably, depending on the nature of the particular inflationary process. For instance, if an inflation is caused by a decline in financial saving, and if at the same time equity security issues are also high, the formation of debt may be comparatively small.

As may be seen in the graph, the gross national product tends to increase faster than debt during an inflation and to fall off in relation to debt during a recession. Compared with the 1919-29 relationship, total net debt was high in relation to the gross national product in the recession year 1938, but rose proportionately less rapidly during the transition to a war economy. Thereafter, largely because of the wartime system of suppressed inflation, large-scale deficit-financing did not reduce the relative burden of debt as much as might otherwise have been expected. After the war, in the periods of more or less balanced expansion (1949-50, 1951-53, 1954-55), the relative growth of total net debt was closely in line with the relationship extrapolated on the basis of the 1919-29 average. On the other hand, in the years of inflation (1946-48, 1950-51 and, to some extent, 1955-57), the gross national product expanded more rapidly than did total net debt, while the opposite was true in the years of recession (1948-49 and 1953-54).

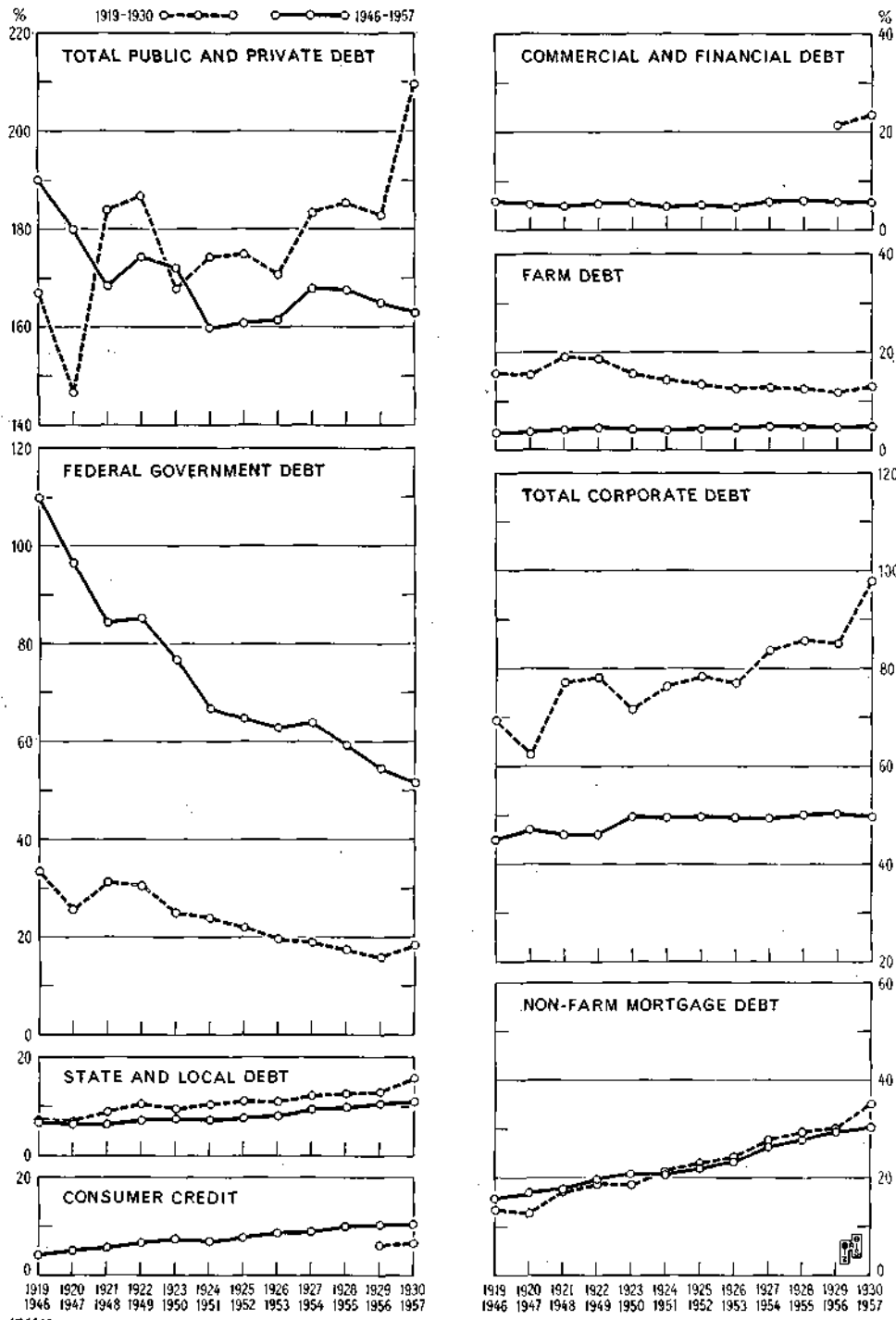
In the post-war period, the growth of debt associated with the progress of economic expansion has been mainly confined to private debt and to the indebtedness of the State and local authorities. Net Federal Government debt in private hands has remained relatively unchanged, although — it is important to add — its annual fluctuations have usually been counter-cyclical in character, and the proportion of the total represented by short-term debt has gradually increased.

Between 1948 and 1957, total net debt fluctuated within the narrow limits of about 160 to 170 per cent. of the gross national product, reaching an aggregate of over \$700 milliard by the end of 1957. As may be seen in the graph on page 56 (top left-hand corner), this fluctuation took place at a level somewhat below that of the corresponding period after the first world war — a fact which is probably attributable to gradual structural modifications in the institutional flow of funds. More significant are the changes in the composition of debt that have occurred between the two periods. The most important of these changes is the large increase in the proportion represented by Federal Government debt after the second world war, for even though this debt dropped from 110 per cent. of the gross national product in 1946 to about 55 per cent. in 1956 it was still over three times as great in relative terms as in 1929. The significance of this is twofold. First, the large public debt — which for the holders is highly liquid but, unlike private debt, does not tend in the same way to limit the spending of the borrower — has most probably been an important liquidity factor contributing to the maintenance of aggregate demand in the post-war period, though sometimes at inflationary levels. Secondly, since total debt tends to remain rather stable in relation to the gross national product, a disproportionate expansion of public debt has the effect, through a variety of processes, of “displacing” a roughly equivalent (hypothetical) amount of private debt.

The “displacement” of private debt by public debt has not affected all categories of private debt in the same manner, as may be seen in the graph on the next page. Three kinds of debt — i.e. non-farm mortgage debt, consumer credit, and State and local debt — have been steadily growing in relation to the gross national product throughout the whole post-war period, and have followed a trend very close to that observable after the first world war. On the other hand, corporate debt, farm debt, and commercial and financial debt have, throughout most of the 1946–57 period, risen almost exactly in proportion to the gross national product but have remained, in relative terms, far lower than after the first world war. The strength shown by these particular sectors probably resulted from such factors as: (i) the large-scale acquisition of liquid assets during the second world war, which made possible a reduction of existing debt and rendered new borrowing less necessary; (ii) the long-sustained high level of post-war economic activity (which facilitated self-financing); and (iii) generous depreciation allowances (especially in the post-Korea period).

The change in the composition of total debt can thus be seen to contain elements both of weakness and of strength at the present time.

United States: Net debt as a percentage of gross national product.



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On the one hand, consumer-sector indebtedness — both mortgage loans and consumer credit — has been growing at a relatively fast rate in recent years. Thus, the corporate sector, which could be expected to be ready to assume an appreciably greater debt burden in order to finance further investment, might in future be deterred from doing so by a slowing-down of the expansion of consumer demand. On the other hand, a factor of strength in the consumer sector continues to be the large and growing amount of its net financial assets (particularly time and savings deposits), as these, along with the automatic income-stabilising effects of the government's budget, can do much to sustain consumer demand in times of recession. That this has hitherto been the case may be seen (in the graph on page 53) from the counter-cyclical expansion of consumer credit and non-farm mortgage debt in 1948-49 and 1953-54. Finally, the rate of growth of total debt and of economic activity can always be regulated, within certain limits, by flexible monetary and fiscal policy.

* * *

During the 1954-57 investment boom, there was considerable diversity in the pattern of saving and investment trends in the countries analysed in this chapter. From 1954 to 1956, private saving (business and personal) showed varying degrees of increase in relation to the national product (though in the United States the growth was roughly parallel and in the United Kingdom the rise was partly due to the fact that personal saving was still recovering from an abnormally low post-war level). Broadly speaking, it would appear that the concurrent rise in interest rates helped not only to slow down the tempo of expansion of investment but also, along with various special monetary and fiscal measures, to stimulate private savings activity. These measures alone, however, were not sufficient, and there was a need for vigorous stabilising action in the form both of increased public saving and of restraint on the part of the public authorities in extending their own investment-financing commitments.

In the United States, Germany and Italy the growth of public saving proved to be a strong counter-inflationary force from 1954 to 1956. In the United Kingdom, France and the Netherlands, on the other hand, public saving followed an irregular course, and in the last-named country it was on an average less than in 1953. Moreover, in these three countries a rapid expansion of investment by the public corporations and/or in publicly financed housing accentuated the investment boom.

In considering developments in 1957, the changes in the level and pattern of saving need to be viewed against the background of the cyclical downturn which began in the United States in the second half of the year. As regards public saving, the declines which took place in the United States and Germany were of an essentially stabilising nature, from both the domestic and the international points of view. The same may be said of the increases in public saving in the United Kingdom and Italy. Moreover, the

United Kingdom and the Netherlands — under conditions that were still inflationary — took steps to curb the rate of public investment.

In all the countries examined, with the exception of France, personal saving in financial form increased appreciably in 1957, at a time when the borrowing needs of business firms were still growing. But it is a significant fact that the change in most countries occurred primarily in the second half of the year, when uncertainty as to the course of economic activity was already spreading. The rise in personal saving led to a substantial increase in the flow of funds — both directly and through the financial intermediaries — into the security markets, the greater part of new borrowing having taken the form of the issue of fixed-interest-bearing securities. In view of the less favourable investment prospects, however, the increase in loanable funds could no longer find its way directly into new investment, and much of the new borrowing undertaken by business appears to have had as its result the rebuilding of weakened liquidity positions. One of the most reassuring facts in the spring of 1958 was the continued lively demand for corporate and other securities, a demand which might provide, within a short space of time, both the climate and the funds needed to facilitate the necessary readjustments to a changed pattern of demand and to bring about a phase of balanced expansion of investment.

III. Money and Credit.

There was a considerable degree of uniformity in monetary and credit developments during 1957 and the early part of 1958 in nearly all the countries reviewed in this chapter. Up to the third quarter of 1957 the money and capital markets became increasingly tight and market interest rates moved upwards, followed — or, in rare cases, preceded — by parallel changes in official rates. The other credit measures which were taken in the majority of countries during the same period were also of a restrictive nature. From the fourth quarter of 1957 onwards the trend was reversed, following the slackening of the investment boom and of inflationary pressure. In Europe two countries stand out against the general pattern: (i) France, where, in view of the continued inflation, restrictive measures were applied throughout the period and were even reinforced in the latter part of it; and (ii) Germany, where a relaxation of restrictions began as early as January 1957 and has been in progress ever since, without, however, leading to any reversal of the balance-of-payments situation.

In the period from January 1957 to May 1958 twenty countries altered their official discount rates and there were forty changes in all (twenty-two upward and eighteen downward), but at the end of the period only three countries (Denmark, Germany and the United States) had lower rates than at the beginning. In Europe seven countries altered their official discount rates between October 1957 and May 1958 — downward in all cases. In the United States, within the same time-span, the Federal Reserve banks cut their rate four times, and after the last reduction (on 18th April 1958) the rate, at $1\frac{3}{4}$ per cent., was the lowest in the western world. Canada continued to apply a Bank rate $\frac{1}{4}$ per cent. above the latest average tender rate for Treasury bills, thus offering a unique example of a country with flexible rates both for exchange and for official discounts. At the beginning of 1957 the Canadian discount rate was 3.90 per cent.; it reached a maximum of 4.33 per cent. in the third week of August of that year and a minimum of 1.62 per cent. in the fourth week of April 1958.

Changes in discount rates were combined in the period under review with the use of other instruments of credit policy. Ceilings on total bank lending were introduced or re-imposed (notably in France, Norway and the United Kingdom); rediscounting facilities were reduced (Germany), and in some instances this action was reinforced by the introduction or raising of penalty rates (France and Finland); under new laws or gentleman's agreements changes were made in the ratio of lending to resources or the proportion of resources to be invested in government securities (Austria, Belgium, France); open-market operations were given greater scope (Belgium) or were undertaken on an unprecedented scale (Germany); and minimum-reserve requirements were altered (the United States, Germany, the Netherlands, Switzerland).

Changes in official discount rates since July 1953.

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 %
Argentina		France (contd)		Norway	
1st October 1946 . . .	3.4	2nd December 1954 . .	3	9th January 1946 . . .	2½
1st December 1957 . .	6	12th April 1957	4	14th February 1955 . .	3½
Austria		13th August 1957	5	Philippines	
26th March 1953 . . .	5	Guatemala		.... January 1949 . . .	2
24th September 1953 .	4	11th December 1947 . .	4	12th February 1954 . .	1½
3rd June 1954	3½	1st January 1954	6	30th March 1957	2
20th May 1955	4½	Germany (Fed. Rep.)		2nd September 1957 . .	4½
17th November 1955 . .	5	11th June 1953	3½	Salvador	
Belgium		20th May 1954	3	22nd March 1950	3
18th December 1952 . .	3	4th August 1955	3½	12th April 1957	4
29th October 1953 . . .	2½	8th March 1956	4½	South Africa	
4th August 1955	3	19th May 1956	5½	27th March 1952	4
6th December 1956 . . .	3½	6th September 1956 . .	5	29th September 1955 .	4½
25th July 1957	4½	11th January 1957 . . .	4½	Spain	
27th March 1958	4½	19th September 1957 . .	4	22nd March 1949	4
Belgian Congo		17th January 1958	3½	1st July 1954	3½
1st July 1952	4	Greece		10th September 1956 . .	4½
1st January 1954	3½	12th July 1948	12	22nd July 1957	5
1st August 1957	4	1st January 1954	10	Sweden	
Brazil		1st January 1955	9	1st December 1950 . . .	3
2nd February 1945 . . .	6	1st May 1956	10	20th November 1953 . .	2½
14th October 1954 . . .	8	India		19th April 1955	3½
16th May 1956	6	15th November 1951 . .	3½	23rd November 1956 . .	4
.... April 1958	8	16th May 1957	4	11th July 1957	5
Canada		Ireland		3rd May 1958	4½
17th October 1950 . . .	2	25th March 1952	3½	Switzerland	
15th February 1955 . . .	1½	25th May 1954	3	26th November 1936 . .	1½
6th August 1955	2	19th December 1955 . .	4	15th May 1957	2½
13th October 1955 . . .	2½	26th May 1956	5	Turkey	
19th November 1955 . .	2½	30th September 1957 . .	6	26th February 1951 . . .	3
5th April 1956	3	28th March 1958	5½	28th June 1955	4½
10th August 1956	3½	31st May 1958	5	6th June 1956	6
18th October 1956 . . .	3½	Japan		United Kingdom	
1st November 1956 . . .	*	1st October 1951	5.84	11th March 1952	4
Ceylon		10th August 1955	7.30	17th September 1953 . .	3½
28th August 1950	2½	20th March 1957	7.665	13th May 1954	3
23rd July 1953	3	8th May 1957	8.395	27th January 1955 . . .	3½
11th June 1954	2½	Libya		24th February 1955 . . .	4½
Chile		1st April 1956	4½	16th February 1956 . . .	5½
12th June 1935	4½	15th April 1957	4	7th February 1957	5
23rd January 1957	6	1st October 1957	5	19th September 1957 . .	7
Costa Rica		Netherlands		20th March 1958	6
1st February 1950	4	7th April 1953	2½	22nd May 1958	5½
1st April 1954	5	7th February 1956	3	United States	
Denmark		25th August 1956	3½	16th January 1953	2
2nd November 1950 . . .	5	22nd October 1956	3½	5th February 1954	1½
23rd September 1953 . .	4½	17th July 1957	4½	18th April 1954	1½
23rd June 1954	5½	16th August 1957	5	15th April 1955	1½
19th April 1958	5	24th January 1958	4½	5th August 1955	2
Finland		25th March 1958	4	9th September 1955 . . .	2½
16th December 1951 . .	5½	New Zealand		18th November 1955 . . .	2½
1st December 1954 . . .	5	26th July 1941	1½	13th April 1956	2½
19th April 1956	6½	13th April 1954	3½	24th August 1956	3
France		26th November 1954 . . .	4	23rd August 1957	3½
8th November 1951 . . .	4	1st July 1955	5	15th November 1957 . . .	3
17th September 1953 . .	3½	5th September 1955 . . .	6	24th January 1958	2½
4th February 1954	3½	19th October 1955	7	7th March 1958	2½
		Nicaragua		18th April 1958	1½
		31st December 1940 . . .	4		
		28st August 1953	5		
		1st April 1954	6		

* 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 22nd May 1958 it was 1.78 per cent.

Some measures (e.g. the granting of privileged treatment to export credits, changes in the rules governing housing or consumer credits, etc.) were also adopted mainly with the object of influencing certain economic sectors according to the specific requirements of the individual countries. Furthermore, there has been an increasing tendency for the governments themselves to act in support of credit measures.

Monetary developments and credit measures taken since the beginning of 1957 in the United States and in twelve European countries are described in the following pages, and a table at the end of the chapter shows the yearly average of the money supply of these countries and its relationship to the gross national product. In eleven countries out of the thirteen the average money supply was greater in 1957 than in 1956, the two exceptions being Finland and the Netherlands. The ratio of the money supply to the gross national product was, however, lower in all the countries included in the table, except Germany, where it was somewhat higher in 1957 than in 1956, and Italy, where it remained unchanged. In some of the countries there has in recent years been a certain reduction in the relative importance of sight deposits in the total money supply, while the ratio of currency to the gross national product has in most cases shown a higher degree of stability, the currency circulation being closely linked with the income-consumption activities of households. Sight deposits, on the other hand, reflect the position of business and are much more sensitive to measures of credit policy and the economic trend.

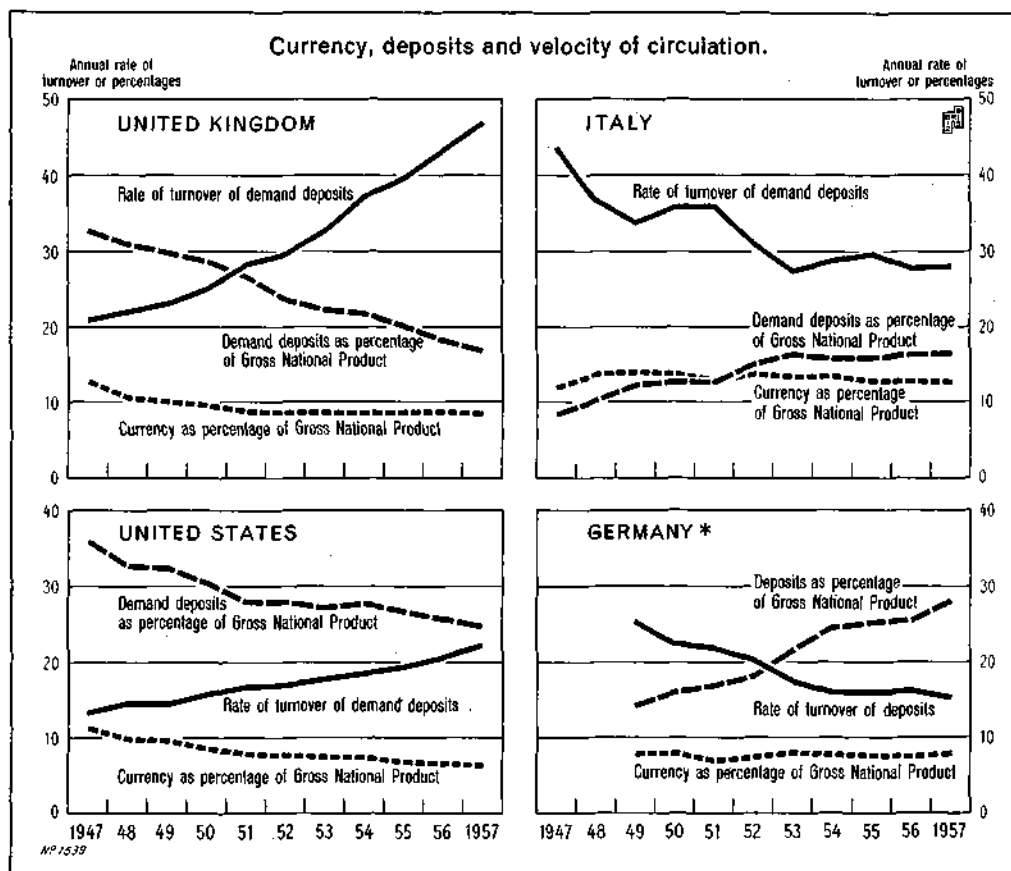
Ratio of sight deposits to total deposits.*

Countries	1938	1951	1956	1957
	end of year, in percentages			
Austria . . . . .	.	80	55	50
Belgium	58	60	52	50
Denmark	16	22	21	18
Finland	12	28	16	15
France	54	70	64	63
Germany . . . . .	.	51	35	33
Italy	20	39	32	31
Netherlands	44	46	40	37
Norway . . . . .	.	30	23	24
Sweden	22	29	24	22
Switzerland	26	36	34	33
United Kingdom	56	68	64	61
United States	50	62	58	55

* Total deposits include, in addition to sight and time deposits, savings deposits, except in the case of the United Kingdom.

In recent years, partly in response to changes in the interest-rate structure, there seems to have been a fairly steady shift from sight to time deposits (which has often meant a quicker increase in the latter than in the former), with the result that the ratio of sight deposits to total deposits has declined.

The relative stability of the currency circulation in relation to the gross national product in the United Kingdom, the United States, Italy and Germany is shown in the following graph. The slight downward trend in the two first-mentioned countries represents a gradual process of readjustment. It was, in fact, only in 1955-56 that the pre-war ratio of currency to the gross national product was re-established in the United States, while in the United Kingdom this point has not yet been reached. As for deposits and their turnover, in the United Kingdom and the United States these show the trends



* For Germany, demand and time deposits held outside the central bank and the rate of turnover of such deposits.

which seem to be characteristic of all countries which ended the war with suppressed inflation and a very high degree of liquidity, namely a steady fall in the ratio of deposits to the national product and a corresponding increase in their rate of turnover. In Italy and Germany the starting point was a liquidity shortage resulting in Germany from the monetary reform of 1948 and in Italy from the fact that the increase in prices up to 1947 had been so rapid and so large as to cause a fall, in real terms, in the volume of deposits. In both countries the liquidity shortage was inevitably compensated to some extent by a high rate of turnover of deposits, which declined when deposits expanded in a non-inflationary manner.

These changes in the liquidity situation — and the related variations in the turnover of deposits — cannot go on for ever. Once the situation becomes more normal, policies of credit relaxation or restraint will have much more chance of being effective.

* * *

Developments in the United States have been dealt with in detail — with particular reference to the trend during 1957 and the first quarter of 1958 — in the first chapter of this Report. In this chapter attention will be paid mainly — though not exclusively — to the changes from year to year.

To understand what happened in 1957 it is useful to go back a few years. In 1955 retained corporate profits and depreciation allowances together amounted to \$24 milliard (i.e. \$5.1 milliard more than in 1954) and external funds were easy to obtain owing to the liquidity created during the 1953-54 recession. Corporate business borrowed rather heavily. External funds totalled \$15.4 milliard (an amount which was six times as great as the previous year's figure and which, together with internal funds, more than sufficed to finance the moderate rise in fixed investments), and there was a substantial addition to inventories (\$5 milliard), while at the same time liquid assets increased by \$4.7 milliard. The figures for 1956 show the first results of the investment boom: corporate

United States: Sources and uses of corporate funds.

Items	1954	1955	1956	1957 ¹
	In milliards of dollars			
Sources of funds				
Internal				
Retained profits	5.4	8.8	8.1	7.0
Depreciation allowances	13.5	15.2	16.7	18.5
Total internal funds	18.9	24.0	24.8	25.5
External				
Bank and mortgage loans	— 0.6	4.7	5.5	1.5
Capital-market issues (net)	5.9	7.0	8.2	11.0
Tax reserves, etc. ²	— 2.7	3.7	0.3	1.0
Total external funds	2.6	15.4	14.0	13.5
Total sources of funds	21.5	39.4	38.8	39.0
Uses of funds				
Gross fixed investment	22.4	24.2	29.9	32.5
Increase in inventories	— 2.0	5.0	7.9	1.5
Net receivables	2.3	4.9	4.7	4.0
Other assets	— 0.2	0.6	0.3	2.5
Total uses of funds	22.5	34.7	42.8	40.5
Changes in liquidity position (cash and holdings of government securities)	— 1.0	+ 4.7	— 4.0	— 1.5

¹ Preliminary figures. ² Including the item "Discrepancies (uses less sources)".

fixed investment increased by nearly a quarter to \$29.9 milliard and inventories rose by \$8 milliard, while net credit to customers (trade receivables) went up by a further \$4.7 milliard. The total amount of funds used was \$42.8 milliard — nearly twice as much as in 1954 and some \$8 milliard more than in 1955. As available internal funds rose very little (partly because of an increase in distributed dividends) and available external funds declined somewhat, corporate business had to utilise nearly all the liquid resources accumulated in the previous year.

At the beginning of 1957 the situation was characterised by a lack of liquidity in both the banking and corporate sectors. Short-term interest rates had been rising since early 1955 and long-term rates were following the same trend, showing that the demand for credit was greater than the flow of new savings. It is very difficult, however, to change corporate fixed-investment programmes within a short period of time, and for the whole of 1957 total fixed investment showed a rise of \$2.6 milliard to \$32.5 milliard. Internal funds having gone up just enough to compensate the fall in external finance, the first effects were felt by inventories, which increased by only \$1.5 milliard (for the quarterly changes see page 5), and liquid assets, which declined by a further \$1.5 milliard. The tight liquidity position of the corporations, together with the fact that more funds were going into fixed investments and less into inventories, created a strong incentive to borrowing in the capital market, which was able to meet the increased demand for long-term funds, thanks, for the most part, to three factors which augmented its supply of investible funds: (i) the more generous dividend policy pursued in recent years by U.S. corporations; (ii) the substantial reduction, in 1957, in the amount of capital funds absorbed by mortgage borrowers; and (iii) the withdrawal from the market of large amounts of U.S. Government securities which found their way into the portfolios of Federal agencies and trust funds.

The amount of Federal securities held by the public has been declining since the end of 1954. In the three-year period 1955-57 these holdings fell by \$9.4 milliard (\$2.9 milliard in 1957), of which \$5.6 milliard went to swell the portfolios of U.S. Federal agencies.

The effects of the government's cash surplus may be seen from the table showing the formation of the money supply. The total of currency and demand deposits declined by \$1.1 milliard in 1957 after seven years of uninterrupted expansion. This was the result of a combination of factors. Of these, two — the decline in new bank credit granted to the economy and the repayment of Federal debt — have already been mentioned, and a third was the shift on the part of individuals from demand to time deposits (partly as a result of the rise in interest rates) and from saving in physical form (the purchase of durable goods and houses) to financial saving. This change in the behaviour of private individuals and the release of funds by the Federal Government helped to reduce the inflationary impact of investment-financing in 1956 and most of 1957.

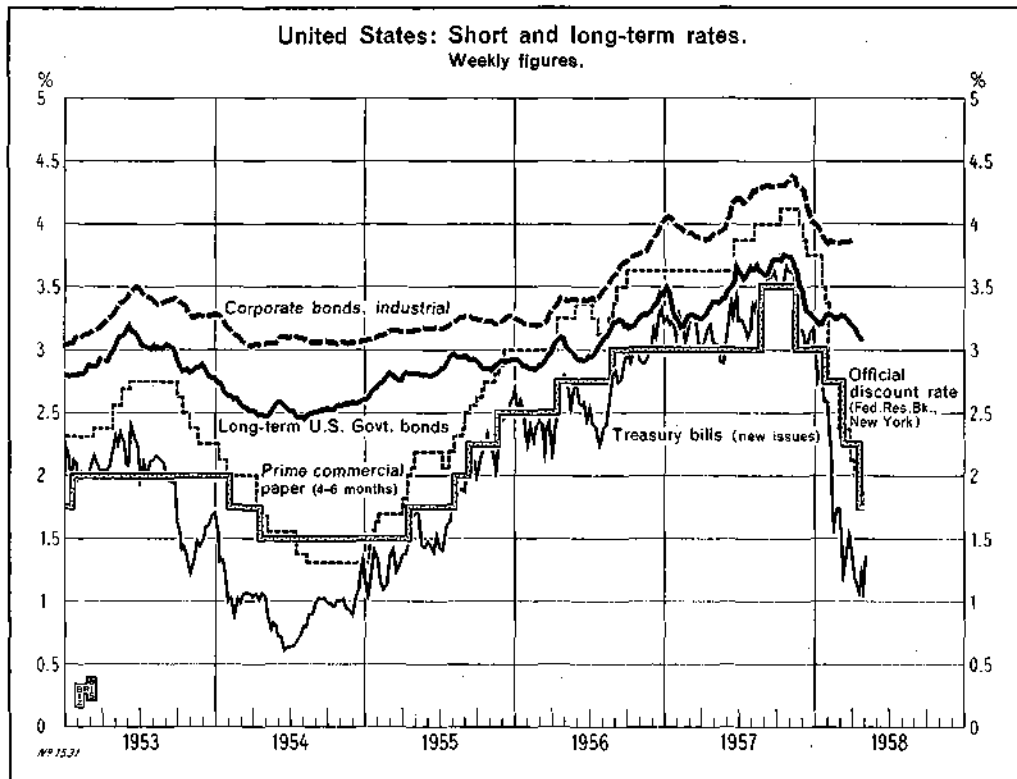
United States: Formation of the money supply.¹

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of dollars				
Changes in the money supply					
Currency	- 0.2	+ 0.4	+ 0.1	- 0.0	28.3
Demand deposits	+ 4.1	+ 3.4	+ 1.5	- 1.1	110.3
Total	+ 3.9	+ 3.8	+ 1.6	- 1.1	138.6
Changes in corresponding items					
Gold inflow (+) or outflow (-) . . .	- 0.3	- 0.0	+ 0.3	+ 0.8	22.8
Credit to U.S. Government (net) ² . . .	+ 3.6	- 7.4	- 3.6	- 2.0	86.7
Credit to business	+ 5.2	+ 14.3	+ 10.1	+ 5.0	115.2
Holdings of non-government securities ³	+ 2.1	+ 0.2	- 0.2	+ 2.5	22.9
Total	+ 10.6	+ 7.1	+ 6.6	+ 6.3	247.6
Time deposits and other items, increase (-)	- 6.7	- 3.3	- 5.0	- 7.4	109.0
Total (net)	+ 3.9	+ 3.8	+ 1.6	- 1.1	138.6

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.

The changes in the climate of opinion in the United States in the past three years are illustrated by the movements of the interest-rate structure. Within this period (actually between mid-April 1955 and the end of August 1957) the official discount rate of the Federal Reserve Bank of New York was raised seven times, in all from 1½ to 3½ per cent. — its highest level since 1933. The Federal Reserve Bank followed the market in making these changes; this was true also of the last increase in August 1957, which was decided upon at a time when all other market rates had been rising for some months.

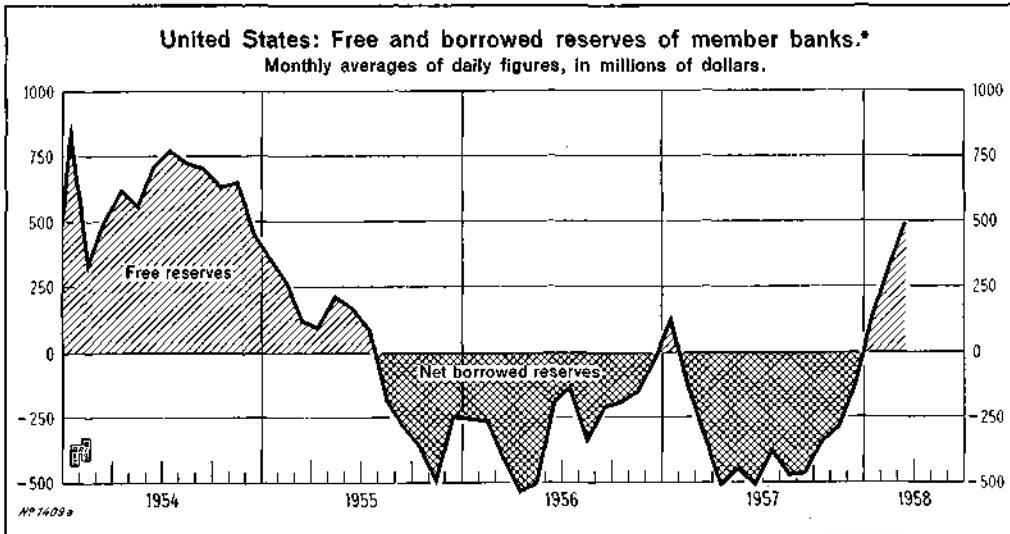
Early in the autumn some of the forces that had sustained the investment boom for nearly three years became weaker or, in some cases, were replaced by impulses working in the opposite direction. The change in business and consumer expectations and the adjustments in inventory and investment policies necessitated by this change are reflected in the reversal of the trend of the whole interest-rate structure which took place around mid-October 1957. The Federal Reserve System was quick to react, notwithstanding continued upward pressure on domestic prices. Towards the end of October open-market operations were so conducted as to permit the diminished growth of bank credit to be reflected in reduced pressure on member-bank reserve positions. In mid-November 1957 the first reduction in the discount rate was announced, and this was followed by further reductions in January, March and April 1958, amounting in all to a 50 per cent. cut — from 3½ to 1¾ per cent. Furthermore, the Federal Reserve System made open-market purchases in excess of seasonal needs for Reserve Bank credit (in the last three months of 1957 its holdings of U.S. Government securities rose by \$1 milliard), and in February, March and April 1958 it reduced the minimum



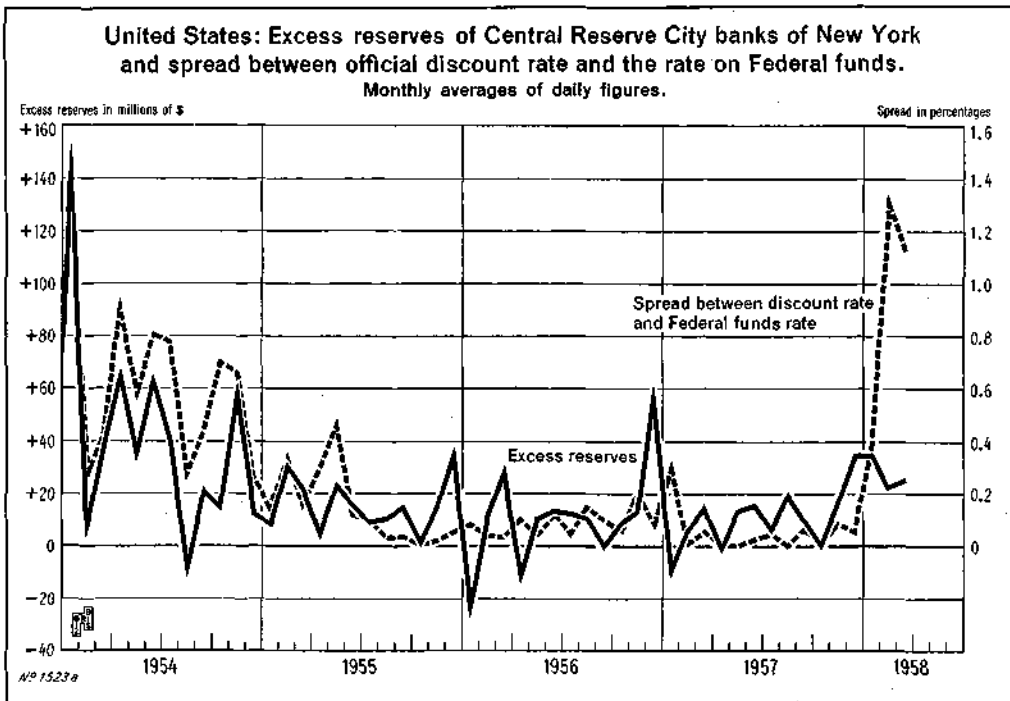
reserve requirements of member banks (in four stages), thus releasing nearly another \$1.5 milliard of loanable funds. As, at the same time, business and consumers moderated their demands for credit, the liquidity of the banks and the economy has considerably increased, as is shown by the fact that the Treasury bill rate and the rate for prime commercial paper fell in May 1958 to a little below 1 per cent. and less than $1\frac{3}{4}$ per cent., respectively, from the high rates of $3\frac{2}{3}$ and $4\frac{1}{8}$ per cent. reached in October 1957.

Free reserves (excess reserves minus borrowing at the Federal Reserve banks) became positive early in 1958 and rose counter-seasonally owing to the combined effect of the reduction in required reserves and a decline in the borrowing of the member banks from the Federal Reserve banks.

A sensitive indicator of the banks' liquidity position is provided by the fluctuations of the "Federal funds rate". The Federal funds market is concerned with interbank dealings in balances held with the Federal Reserve System. The supply comes mainly from member banks which have excess reserves and the demand from member banks which are temporarily short of cash and which, by having recourse to this market, avoid borrowing from the Federal Reserve bank. The price resulting from the prevailing market situation is the Federal funds rate, which may fluctuate considerably but cannot exceed the official discount rate, as otherwise the banks would borrow from the Federal Reserve bank. At times of pressure on the money market



the "funds rate" often touches the limit set by the official discount rate, and if this occurs more than occasionally it may serve as an indication to the monetary authorities that they ought to raise their official rate. Given a certain discount rate, the level of the Federal funds rate is mainly (but not exclusively) determined by the reserve position of the member banks — especially the level of the excess reserves of the New York City banks — and the spread between the discount rate and the funds rate normally indicates the actual situation on the money market.



The preceding graph shows the close connection between the size of the excess reserves of the New York City banks and the spread between the official discount rate and the funds rate. At times, however, the two lines in the graph move in opposite directions; there are a number of reasons for this movement, which is mainly of a seasonal nature, one of them being the banks' desire to improve their liquidity at the end of each quarter and prior to their half-yearly statements.

During most of 1954 the official discount rate was at the low level of $1\frac{1}{2}$ per cent. and the funds rate remained well beneath it, indicating an easy reserve position. Early in 1955 the tide turned and from the middle of that year until nearly the end of 1957 sustained pressure on the money market prevented the funds rate from diverging far from the discount rate. Towards the end of 1957 the pressure on bank reserves began to lessen and in the first quarter of 1958 it disappeared. Since the end of January 1958 the Federal funds rate has been well below the discount rate (except for short periods when it has risen in connection with Treasury refunding operations).

The graph on page 66 shows how long-term rates, though less flexible, follow closely the trend of short-term rates (represented in the graph by the Treasury bill rate), indicating that changes in the official discount rate and in the liquidity position of the money market soon affect the whole interest-rate structure.

The anti-recession measures increasing the availability and lowering the cost of credit in the United States have been supplemented by government action in various fields of public expenditure, such as housing, highways, defence procurements, etc. All these measures, however, have been taken with an eye on the still continuing rise in prices and on the danger, as the Chairman of the Board of Governors of the Federal Reserve System expressed it before a Senate sub-committee on 19th February 1958, "that excessive stimulus during recession can sow seeds of inflation that can grow to jeopardise our long-run stability and our economic strength"

In the United Kingdom the budget results for the fiscal year 1957-58 showed an improvement over those for the preceding year; at £212 million, the overall deficit was about £120 million below the figure for 1956-57. The results were not greatly out of line with the original estimates for the year; the surplus "above the line" was £39 million smaller and net outlay "below the line" £48 million higher than expected. Had it not been for loans to the "other nationalised industries", which in the last two years have been made through the Exchequer instead of being issued directly in the capital market, there would have been in 1957-58 an overall surplus of £70 million.

In addition to having to provide cover for the overall budget deficit of over £200 million, the Exchequer also needed funds to finance the increase in the gold and foreign exchange reserves which took place towards the end of 1957 and in the first months of 1958. The Export-Import Bank loan having partly relieved it of this necessity, the amount remaining to be found

United Kingdom: Government finances.

Items	Financial year				
	1955-56	1956-57	1957-58	1958-59	
	Actual		Original estimates		
In millions of £ sterling					
"Above the line"					
Revenue					
Inland revenue	2,539	2,705	2,655	2,811	2,970
Customs and excise	2,013	2,101	2,150	2,117	2,189
Other revenue	341	352	338	361	280
Total	4,893	5,158	5,143	5,289	5,439
Expenditure					
Civil	2,347	2,519	2,708	2,650	2,841
Defence	1,405	1,525	1,430	1,420	1,418
Consolidated fund*	744	824	782	757	816
Total	4,496	4,868	4,920	4,827	5,075
"Above-the-line" surplus	+ 397	+ 290	+ 423	+ 462	+ 364
"Below the line"					
Net payments					
Loans to local authorities	297	67	45	52	13
Loans to the Coal Board	78	26	81	45	76
Loans to other nationalised industries . . . . .	.	264	282	276	341
Other payments	163	244	227	214	170
Total net "below-the-line" payments	538	621	635	587	600
Overall deficit	- 141	- 331	- 212	- 125	- 236

* Including sinking-fund payments: £37 million in 1955-56, 1956-57, 1957-58 and £38 million in the estimates for 1958-59.

for this purpose may be estimated at nearly £150 million, so that the overall financial requirement (not including funds needed for maturing stock) may be put at £350 million. In the fiscal year 1957-58 net cash receipts from National Savings supplied only some £20 million (compared with over £100 million in 1956-57) and this was offset by an almost identical decline in the amount of Tax Reserve Certificates outstanding (which had increased by over £20 million in the year 1956-57). The Exchequer thus had to borrow some £150 million in the market, the remaining amount being obtained from extra-budgetary sources, including the increase in the fiduciary issue and the surplus of the National Insurance Funds. In order to have a clearer view of the situation, it would be necessary to know how the holdings of Treasury bills and government stock of the various government departments (the Exchange Equalisation Account, the National Debt Commissioners and, especially, the Issue Department of the Bank of England) varied during the fiscal year. These amount altogether to over £6,000 million, one-third of which is held by the Issue Department of the Bank of England and is being increasingly used to steady the gilt-edged market and to provide a reservoir of stock of different maturities from which sales are made to the public in the open market independently of new issues, often — as in 1957 — with the long-term aim of lengthening the life of the public debt.

Between April and December 1957 over £900 million of maturing stock was repaid without any conversion offer being made and only £100 million of new stock was issued. Repayments seem to have been made predominantly with the proceeds of market sales of longer-term securities held by the Issue Department, but it is likely that part of the funds required for these redemptions was raised by the issue of Treasury bills to the market. During the late spring and the summer months the market for fixed-interest-bearing securities was depressed, initially owing to industrial disputes and the size of wage awards and later because of the price trend and the foreign exchange crisis. The measures taken in September 1957 and the subsequent reversal of the exchange position greatly improved the gilt-edged market, so that sales of stock held by government departments could be resumed and new issues were announced. On 14th January 1958 a cash issue of £500 million of 5½ per cent. Exchequer Stock 1966 was made at an issue price of 99½. This issue had the double aim of immediately attracting funds from investors and of replenishing the government departments' portfolios with medium-dated paper which could be gradually sold to the market as the demand for it continued. In mid-February 1958 a £300 million 5½ per cent. Funding Stock was issued with redemption dates ranging from 1982 to 1984 and at an issue price of 98½. This stock, too, was taken up chiefly by government departments. It has the special feature, however, of being tax-free when held by residents abroad, which makes it an attractive investment for foreign funds which have flowed to London owing to the high interest rates prevailing there.

In the twelve-month period ended mid-March 1958, the public-sector assets of the London clearing banks increased by £260 million, the largest rise having been in holdings of Treasury bills (£167 million), while investment in government stock went up by £101 million. It seems likely that the growth in the banks' holdings of Treasury bills was due not only to the increased volume of such paper on the market but also to a decline in overseas

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								
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
1957—58	+ 190	— 8	+ 167	+ 101	+ 260	— 59	— 21	— 80
Outstanding at mid-March 1958	6,087	438	1,082	2,094	3,614	1,917	124	2,041

* Including advances to nationalised industries.

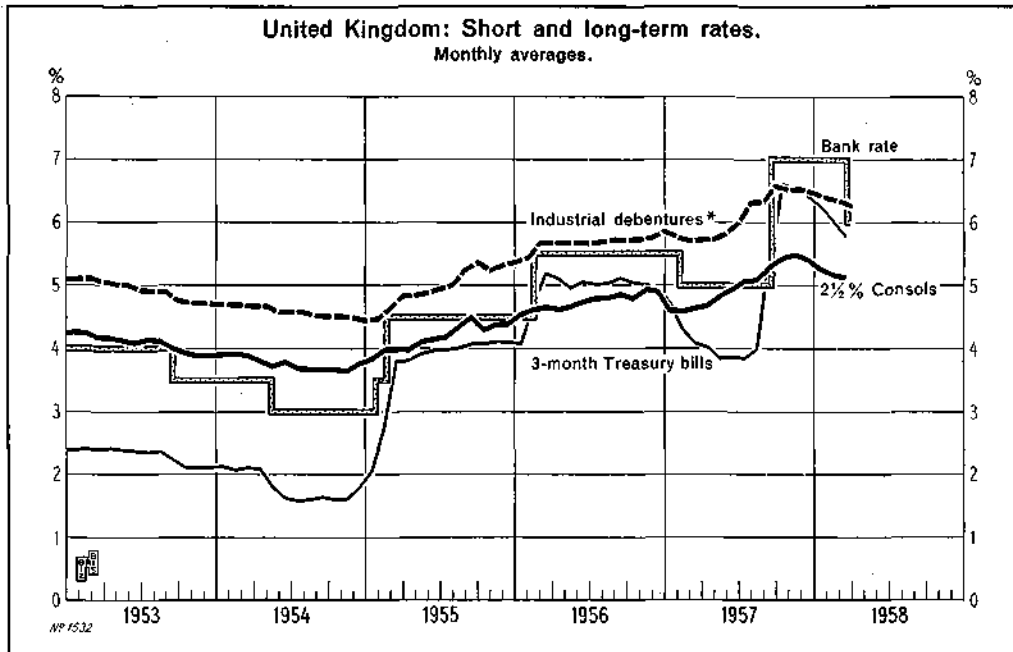
holdings of Treasury bills — as indicated by the fall in overseas sterling balances. Advances declined by £59 million (those to the nationalised industries, however, increased by £11 million) and bills by £21 million.

The reduction in advances as a whole was relatively small but it must be remembered that at mid-March 1958 the amount of outstanding advances was about equal to that on the same date six years earlier, whereas the gross national product in terms of current prices has increased over the same period by as much as 50 per cent. Bank advances rose rather more than seasonally early in 1957, but from April until July there was little further change (apart from a temporary seasonal rise at 30th June). Between July and September advances fell by £38 million, and from September onwards, i.e. after the raising of Bank rate and the further tightening of credit, the decline became still more marked until the close of the year. From early in 1958 advances varied more closely in line with the usual seasonal movement, which is generally upwards in the opening months of the year. But between September 1957 and March 1958 advances fell by £37 million, whereas in the same period one year earlier they had risen by £116 million. The fall in world-market prices has certainly helped to keep down the demand for bank credit, and furthermore the amount of new funds raised in the capital market in 1957 by domestic companies (excluding public corporations) was, according to the estimates of the Midland Bank, over £290 million, i.e. more than £80 million above the 1956 figure. The liquidity of the clearing banks in the period under review remained well above the conventional minimum of 30 per cent. of deposits and in December 1957 it reached 38.4 per cent. — the highest figure since 1951.

Total deposits (excluding interbank balances) increased by £190 million, this being the net result of a decline of £193 million in current-account balances and an increase of £383 million in time deposits — a shift which took place mostly from October onwards and is presumably attributable partly to the very high interest rate (5 per cent.) paid on time deposits after the increase in Bank rate in September 1957. The decline in current accounts in 1957 more than offset the increase in currency in circulation with the public, so that the total money supply (defined as currency in circulation plus demand deposits) declined by £47 million to £5,710 million — i.e. to a figure even lower than that of December 1954. If time deposits were included in the money supply, this would be found to have increased in 1957 by £210 million; even so, its ratio to the gross national product would show a decline from 41 to 40 per cent.

The fight against inflation, both by means of the check imposed on domestic expenditure, public and private, and by the encouragement of personal saving, continued to form the basis of monetary and budget policy in the United Kingdom in the period under review. When, in February 1957, Bank rate was lowered from the "crisis level" of 5½ per cent. to 5 per cent., it was authoritatively stated that this decision implied no change in policy and that it was "not a signal for bankers or others controlling sources of

finance to relax credit or to ease restrictions on lending". At the beginning of the year the trend of interest rates was downwards in all sectors, and it was considered that effective credit and funding policies could be pursued, for the time being, at a lower level of interest rates. After the reduction in Bank rate, there was an acceleration of the decline in money-market rates, and, in particular, of the downward movement of the Treasury bill rate, which reached its lowest level early in May 1957, afterwards settling down



* Last Tuesday of the month.

at a little below 4 per cent. until, influenced by the foreign exchange crisis, it began to rise early in August. This movement of short-term rates was neither accompanied nor followed by the rates on longer-dated securities; on the contrary, the yield of long-term government bonds and industrial debentures, after a short period of stability following the reduction in Bank rate, rose steadily, and in July the yield of 2½ per cent. Consols rose above the level of Bank rate.

On 19th September 1957, under the pressure of the foreign exchange crisis and in order to check the rise in prices, a number of more severe financial measures were adopted:

- (i) Bank rate was raised to the exceptional level of 7 per cent., the highest figure for thirty-six years;
- (ii) the banks were informed that in the government's view the situation required that they should keep the average level of their advances during the following twelve months, with some exceptions, at the average level of the preceding twelve-month period (i.e. at about £1,950 million), and the clearing banks stated that they would do their best to achieve this result; and

(iii) the Capital Issues Committee was asked by the Chancellor of the Exchequer to adopt a more restrictive and critical attitude regarding new issues, particularly those involving large amounts.

Furthermore, the Chancellor of the Exchequer announced that total government outlay on investments (including those of local authorities and of nationalised industries) was to be held during the next two years at £1,500 million, this representing a substantial reduction of previously planned expenditure and possibly — owing to rising prices — even a cut in real terms.

In these ways the U.K. authorities endeavoured to create an economic climate in which price inflation would come to an end, and they themselves gave a lead, as regards expenditure, by deciding that in those sectors in which the government was an employer any unavoidable increase in wages and salaries should be offset by other economies.

As a first reaction to these measures, short-term rates immediately rose sharply, while those on longer-term securities increased only slightly, the action taken having restored confidence in fixed-interest-bearing securities (movements in the share market are dealt with in Chapter I, page 16). Towards the end of 1957 the whole interest-rate structure moved downwards again, and it continued to do so early in 1958, although the decline in the Treasury bill rate was restrained by the need of the discount market to obtain advances from the Bank of England, while new issues of government stock had the same effect on longer-term interest rates.

On 20th March 1958, in view of the greatly improved position of the pound sterling in foreign markets, the decline in interest rates in the United States and other countries and the change in the climate of opinion in the United Kingdom about inflation, Bank rate was reduced by 1 per cent., and on 22nd May it was again lowered, this time by $\frac{1}{2}$ per cent., bringing it down to $5\frac{1}{2}$ per cent.; on both occasions, however, it was officially stated that the reduction implied no reversal of the general trend of monetary policy.

In a speech given on 26th March, one week after the first cut in Bank rate, the Governor of the Bank of England, Mr. C. F. Cobbold, declared:

“I said last month at Guildhall that the battle against inflation was only half won and that the general lines of last September’s policy must be continued until that half was converted into a whole. I would still say that inflationary pressures, though damped down rather more clearly than was evident six weeks ago, are still lurking around. With patches of recession round the world, the length and depth of which we cannot yet judge but which look rather more threatening than they did in February, the worst service we could do to our prospects of high employment and living standards would be to allow inflation to continue in the United Kingdom and so to price ourselves out of world markets. Until we have killed inflation we are surely bound to hold back many things which in themselves would be desirable.”

The budget estimates for 1958–59 provide neither for any major tax reduction nor for any general economic relaxation but only for a number of small concessions, which will cost the Exchequer £50 million in 1958–59

and £108 million in a full year of operation. A certain relaxation of the credit squeeze has, however, been announced as regards bank advances in areas of heavy unemployment, which will henceforth receive the privileged treatment already enjoyed by medium-term export credits. The "above-the-line" surplus for the year 1958-59 is estimated at £364 million — a smaller amount than that estimated for (or realised in) the preceding budget. Expenditure "below the line" is put at £600 million, giving an estimated overall budget deficit of £236 million.

The overall budget deficit in France amounted in 1957 to Fr.fcs 925 milliard, i.e. as much as in 1956. Revenue (including receipts to be used for debt-redemption purposes), though greater than in the previous year, still fell short of total expenditure, which rose in 1957 to nearly Fr.fcs 5,300 milliard as a result of an increase in civil and military expenditure and, to a minor extent, in investments.

France: Government finances.

Items	1954	1955	1956	1957 ¹
	in milliards of French francs			
I. Revenue				
Ordinary revenue	3,118	3,271	3,584	4,220
Extra-budgetary revenue ²	188	173	133	140
U.S. aid	109	106	49	5
Total	3,415	3,550	3,766	4,365
II. Expenditure				
Civil expenditure	1,939	2,196	2,592	2,940
Military expenditure	1,221	1,145	1,406	1,470
War-damage reconstruction	355	336	317	250
Investments ³	345	368	391	450
Special Treasury accounts and others ⁴	35	50	— 16	180
Total	3,895	4,095	4,690	5,290
III. Overall deficit (-)	- 480	- 545	- 924	- 925
Covered by increases (+) in				
Public debt ⁵	+ 212	+ 186	+ 612	+ 621
Correspondents' deposits ⁶	+ 164	+ 358	+ 309	+ 336
Cash and miscellaneous	+ 84	+ 1	+ 3	- 32

¹ Preliminary figures. ² Tax receipts of the Caisse Autonome d'Amortissement used for debt redemption. ³ Loans for the construction of "low-rent houses" and allocations to the Fund for Economic and Social Development. ⁴ The large amount in 1957 is due, to a certain extent, to the revaluation of certain commitments vis-à-vis foreign countries as a result of the "20 per cent. operation". ⁵ Including advances from the Bank of France, which amounted to Fr.fcs 452 milliard in 1957. ⁶ Including changes in the balances of the central banks of overseas territories.

The budget estimates for 1958 were prepared with the double aim of limiting total expenditure to Fr.fcs 5,300 milliard and of reducing the overall deficit to Fr.fcs 600 milliard.

In 1956 the public debt increased by over Fr.fcs 600 milliard, of which nearly Fr.fcs 500 milliard was taken up by the public and some Fr.fcs 120 milliard by the "correspondents". In addition, the "correspondents" deposited

directly with the Treasury over Fr.fcs 300 milliard of their resources (which include savings collected by the postal and savings banks). Purchases of government securities by the public together with the resources of the "correspondents" covered practically the whole of the "impasse", the unusually large amount of these items being at least partly explained by the influx of funds from North Africa (see pages 47 and 79 of the Twenty-seventh Annual Report). In 1957 there was a much smaller inflow of funds from this source and the total amount received by the Treasury from security issues and from the "correspondents" covered little more than one-half of the overall deficit, so that the remaining gap had to be filled by borrowing from the Bank of France.

France: Formation of the money supply.

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of French francs				
Changes in the money supply					
Currency	+ 245	+ 327	+ 271	+ 162	3,343
Demand deposits	+ 395	+ 344	+ 345	+ 405	3,809
Total	+ 640	+ 671	+ 616	+ 567	7,152
Changes in corresponding items					
Bank credit to public authorities ¹	+ 167	+ 6	+ 186	+ 599	3,013
to the economy ²	+ 341	+ 439	+ 725	+ 553	4,577
Total credits	+ 508	+ 445	+ 911	+ 1,152	7,590
Gold and foreign exchange (net)	+ 176	+ 300	- 307	- 404	- 31
Time deposits (increase -) and other items (net)	- 44	- 74	+ 12	- 181	- 407
Grand total	+ 640	+ 671	+ 616	+ 567	7,152

¹ Including changes in credit from the Bank of France of Fr.fcs -38 milliard, -130 milliard, +9 milliard and +482 milliard respectively for the years 1954, 1955, 1956 and 1957. ² Including the nationalised industries.

Total bank credit (i.e. credit from the Bank of France and the commercial banks) to the public authorities amounted in 1957 to Fr.fcs 600 milliard (compared with Fr.fcs 190 milliard in 1956 and Fr.fcs 5 milliard in 1955). At the same time the "economy", i.e. the nationalised industries and the private sector, borrowed heavily from the banks — though to a lesser extent than in 1956. Bank lending to these sectors includes a large proportion of credit which, within certain limits, is granted almost automatically, on the basis of previously adopted official programmes, for housing, productive investment and export promotion. Altogether, new bank credit in the two years 1956-57 amounted to as much as Fr.fcs 2,065 milliard — i.e. over twice the figure for the two years 1954-55.

The considerable credit expansion in 1957 led to an increase in the money supply of no more than Fr.fcs 570 milliard, because the heavy loss in the official gold and foreign exchange reserves cancelled out Fr.fcs 400 milliard of the new money.

France: New bank credit to the economy.

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of French francs				
Short-term	202	273	453	243	3,156
Medium-term	139	166	272	310	1,421
Total	341	439	725	553	4,577
Refinanced at the Bank of France					
Short-term	- 25	26	158	- 180	621
Medium-term	149	114	417	302	1,338

Medium-term credit played a larger part in the overall credit expansion than in any previous year. Nearly 60 per cent. of the new credit granted in 1957 took this form and practically the whole amount was refinanced by the bank of issue. The whole of the decline in short-term credit refinanced at the Bank of France took place in the second half of 1957 and was due to the credit measures adopted by the authorities in the summer and late autumn.

Monetary saving, at Fr.fcs 1,071 milliard, was maintained at the high level reached in 1956, but in 1957 more of it consisted of liquid savings and

France: New monetary savings.

Items	1954	1955	1956	1957
	in milliards of French francs			
Liquid savings				
Increase in time and savings deposits	244	316	245	324
Increase in reserves of life assurance companies	76	100	113	126
Short-term Treasury paper bought by the public	173	158	99	116
Total liquid savings	493	574	457	566
Capital-market issues by				
Public authorities	120	99	425	110
Nationalised industries	70	49	90	145
Private business*	209	274	273	437
Total capital-market issues (gross)	399	422	788	692
Less: repayments and double entries	85	147	166	187
Net capital subscriptions	314	275	622	505
Total new monetary savings	807	849	1,079	1,071

* Including issues of specialised credit institutions and, in 1957, the "oil certificates" issued by the state, the proceeds of which are, however, reinvested in the oil sector.

less of invested savings. Within each of these two groups there were also important shifts, namely:

- (i) an increase in time deposits — due, at least in part, to the introduction of stricter rules regarding the interest allowable on sight deposits received by the commercial banks; and

- (ii) a sharp fall in capital-market issues by the public authorities (or rather, a return to a more normal figure from the high level reached in 1956 as a result of the issue of a government loan indexed on stock exchange quotations) and at the same time an increase of over Fr.fcs 160 milliard, to Fr.fcs 437 milliard, in the market issues of private business.

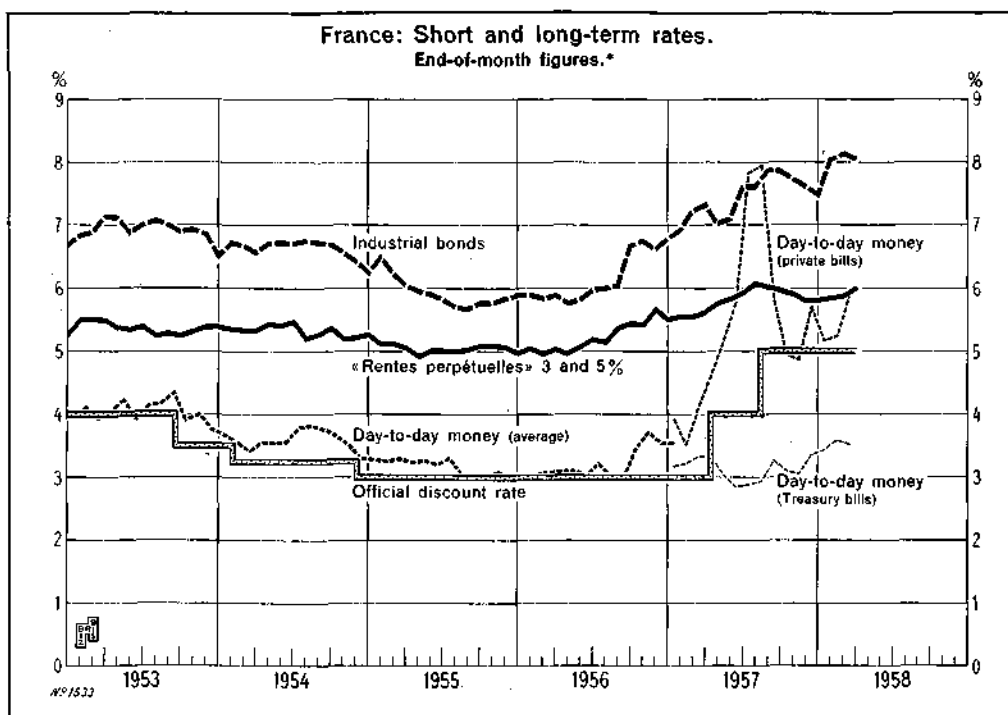
In 1956 the action taken in the field of credit was confined to a raising of the minimum requirements for the banks' holdings of Treasury bills (a measure intended chiefly to direct more funds to the Treasury), the issuing of instructions to the banks to exercise restraint in credit-granting and a tightening of the conditions governing instalment sales; in 1957, however, a number of measures were adopted to reduce the banks' liquidity and to make borrowing more expensive, and in the early months of 1958 narrow limits were fixed for credit-granting by the banks. The most important of these measures are summarised below.

- (i) Rates of interest: The official discount rate was raised twice, from 3 to 4 per cent. (11th April 1957) and then to 5 per cent. (12th August). The lombard rate was raised in all by $2\frac{1}{2}$ per cent., to 7 per cent. The penalty rate of 2 per cent. above the discount rate applying to rediscounts above the ceiling fixed for each bank was made applicable to only the first 10 per cent. of rediscounts above the ceiling, rediscounts beyond this being made subject to a super-penalty rate fixed by the Governor of the Bank of France. This super-penalty rate was fixed at 5 per cent. above the official discount rate, making a total charge — since August 1957 — of 10 per cent. In the middle of April 1958 total penalty charges were raised to 8 and 12 per cent. respectively. Export credits were excluded from these increases in rates and continued to be rediscounted at 3 per cent.
- (ii) Rediscount ceilings: The maximum amount of short-term paper that each bank is allowed to rediscount was reduced three times between July and November 1957 (from Fr.fcs 620 to 447 milliard for all banks together). This measure has also strengthened the effect of the rise in penalty rates. (Export bills are, however, not subject to the ceiling and can thus be rediscounted without limitation.)
- (iii) Rediscounting of Treasury bills: The statutory obligation of the Bank of France to rediscount the banks' holdings of Treasury bills (with less than three months to run) in excess of the minimum requirements was abolished at the end of June 1957.
- (iv) Limits on credit-granting: In February 1958 the National Credit Council decided to stabilise the volume of bank credit at a level equal to the average of credit outstanding at the end of September and the end of December 1957, plus a 3 per cent. increase (about Fr.fcs 100 milliard), the latter amount, which raised the overall credit ceiling to the level of credit outstanding at the end of December 1957, being reserved entirely for export credit. When penalty rates were increased in April 1958, the banks were informed that if any of them exceeded the credit limit their rediscount ceiling might be lowered.
- (v) Other measures included: (a) a further reduction of the credit element in instalment sales; (b) a limitation of credit lines to nationalised industries to 20 per cent. (25 per cent. in 1957) of their annual investment programmes; (c) a tightening of the conditions governing housing loans; and (d) the reintroduction, in July 1957 and January 1958 respectively, of the

regulations requiring that prior authorisation be obtained from the Finance Ministry for bond and share issues of Fr.fcs 100 million and above.

- (vi) Medium-term housing credits: Under the finance law for 1958 a "Caisse de consolidation et de mobilisation des crédits à moyen terme" was created with the main object of preventing such credits from having to be refinanced almost entirely by the central bank and of gradually reducing the large volume of such paper at present held by the Bank of France. This measure was thus designed to eliminate one of the more direct causes of inflation which has been at work in recent years. The Governor of the Bank of France participates in the management of the Caisse. In 1958 its resources will consist mainly of Fr.fcs 54 milliard from the government budget and of the counterpart in francs of France's drawing on the I.M.F.

The lowering of the rediscount ceilings and the raising of the penalty charges have increased the scope for interbank lending, as is shown by the considerable expansion in the clearing turnover and the occasional sharp



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

variations in the special money-market rate applied to such transactions. The whole structure of interest rates in France was higher at the end of 1957 than it had been a year before, and early in 1958 the yield on industrial bonds rose to over 8 per cent.

Developments in the field of money and credit in the Federal Republic of Germany during 1957 were predominantly influenced — even more than in 1956 — by the large inflow of gold and foreign exchange and the state of liquidity caused by this inflow.

Germany:* Formation of the money supply.

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of Deutsche Mark				
Changes in the money supply					
Currency	+ 0.8	+ 1.3	+ 0.8	+ 1.6	16.5
Sight deposits (private)	+ 2.2	+ 1.4	+ 1.3	+ 2.2	18.5
Total	+ 3.0	+ 2.7	+ 2.1	+ 3.8	35.0
Changes in corresponding items					
Credit to public authorities (net)	- 3.8	- 3.6	- 4.6	+ 0.7	- 5.9
to the private economy	+ 11.3	+ 12.4	+ 8.6	+ 8.2	82.4
Total credit	+ 7.5	+ 8.8	+ 4.0	+ 8.9	76.5
Gold and foreign exchange	+ 2.9	+ 1.9	+ 4.7	+ 5.4	22.6
Other items	+ 0.9	+ 0.5	+ 1.9	+ 0.9	7.2
Total	+ 11.3	+ 11.2	+ 10.6	+ 15.2	106.3
Increase (-) in savings deposits and other longer-term funds	- 8.3	- 8.5	- 8.5	- 11.4	71.3
Grand total	+ 3.0	+ 2.7	+ 2.1	+ 3.8	35.0

* Excluding West Berlin.

The money supply in Germany rose during 1957 by DM 3.8 milliard, or 12 per cent., a rate substantially higher than the 7.5 per cent. increase in the national product, so that the income velocity of money slowed down.

Whereas in previous years the public authorities had steadily accumulated funds in the banks, in 1957 they had to draw on their balances. This change was due in part to a reduction in the budget surplus of the Federal Government in respect of domestic payments and in part to a large increase in the government's payments to foreign countries — chiefly on account of armament orders placed abroad.

New bank credit to the private economy, at DM 8.2 milliard, was somewhat less than in 1956 and much less than in 1955. Furthermore, while in 1955 it had greatly exceeded and in 1956 more or less equalled the amount placed with the banks by business and individuals in the form of savings and time deposits and in other similar forms, in 1957 new borrowing from the banks was DM 3.2 milliard less than the funds supplied in this way to the banks by the private sector, which rose by about DM 3 milliard to DM 11.4 milliard.

For some years past the surplus in the Federal Government's cash budget has played an important part in offsetting the increase in private liquidity resulting from the balance-of-payments surplus. In the table on the formation of the money supply, gold and foreign exchange holdings are shown as having increased in 1957 by DM 5.4 milliard, this amount being what remained after the large net purchases of foreign exchange made by the Federal Government out of its deposits with the central bank. The central

Germany: Factors increasing (+) or reducing (—)
the liquidity of the credit institutions.

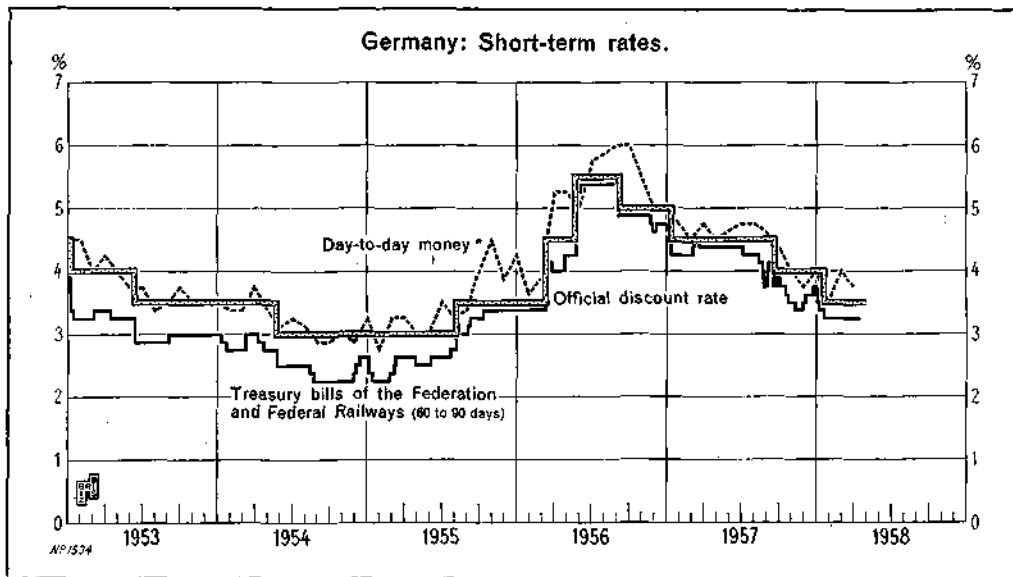
Factors	1954	1955	1956	1957
	in milliards of Deutsche Mark			
Operating transactions				
Notes and coin in circulation (increase →)	— 0.9	— 1.3	— 0.9	— 1.7
Central-bank deposits of non-banks (mainly public authorities) (increase →)	— 1.7	— 2.0	— 1.6	— 0.4
Net foreign exchange purchases (+) of central bank	+ 3.2	+ 2.1	+ 5.6	+ 7.9
Other transactions (net)	+ 0.2	+ 0.4	— 0.1	+ 0.2
Total	+ 0.8	— 0.8	+ 2.7	+ 5.9
Transactions with the central bank				
Open-market sales (→) of central bank . .	— 0.1	— 0.0	— 0.5	— 2.6
Recourse to central-bank credit (decrease →)	— 0.0	+ 1.3	— 1.5	— 1.4
Increase (→) in required reserves	— 0.4	— 0.8	— 0.4	— 1.8
Total	— 0.5	+ 0.5	— 2.5	— 5.8

bank's net purchases of foreign exchange from the private economy in 1957 actually totalled DM 7.9 milliard, and this (together with some DM 0.2 milliard retained by the commercial banks) represents the real addition to domestic liquidity resulting from the external surplus.

The German credit institutions experienced in 1957 an increase in their liquidity of DM 5.9 milliard as a result of their normal transactions. As has already been shown, they were not called upon to grant credit in excess of the flow of savings and other longer-term funds. Part of the additional liquidity (DM 1.8 milliard) was needed to cover minimum-reserve requirements (owing to both the increase in deposits and the raising of the requirements), but most of it was used to repay indebtedness to and acquire short-term securities from the central bank. The credit institutions' indebtedness to the central bank, which had amounted to DM 4.4 milliard at the end of 1955, had fallen to DM 2.9 milliard one year later and to DM 1.7 milliard at the end of 1957. In addition, the credit institutions voluntarily took up DM 2.6 milliard of open-market paper in 1957 (five times more than in 1956).

This high bank liquidity and the increased volume of personal savings benefited the capital market. New issues totalled DM 5.8 milliard — i.e. one-third more than in 1956. The increase was accounted for wholly by issues of fixed-interest-bearing securities, while share issues remained below the previous year's figure. In the first quarter of 1958 new issues were nearly double those in the corresponding period of 1957, and in March 1958 important issues of industrial bonds bearing interest at 7 per cent. were made at 97 to 98 per cent. of their nominal value.

Between September 1956 and January 1958 the official discount rate of the Bundesbank was reduced four times — by $\frac{1}{2}$ per cent. each time —



* Highest rate of the month.

to 3½ per cent. Other short-term rates have moved in step with the official rate, while the gap between the rates in the money market and those in the capital market has widened. In addition to lowering the discount rate and making open-market sales, the Bundesbank raised the minimum-reserve requirement on 1st May 1957 by 1 per cent. — a measure which resulted in the sterilisation of over DM 500 million of the banks' resources. Furthermore, the rates applied under the minimum-reserve regulations to the DM deposits of non-residents were raised in two steps (1st May and 1st September 1957) to the highest levels permissible, i.e. 30, 20 and 10 per cent. respectively for sight, time and savings deposits. This measure (specifically designed to check the inflow of foreign short-term capital) sterilised over DM 300 million of the banks' funds.

The present liquidity position of the German banks and the weakness of the demand for credit should, if they continue long enough, help to remove the existing distortions in the structure of interest rates by reducing the yield on bonds and causing the banks to lower their charges for advances and overdrafts. In the event of a sharp revival of demand for credit the banks would be in a very easy position; if, however, the danger of inflation should develop again, the Bundesbank, in view of the low level of its official rates, would have sufficient room for manoeuvre — and the minimum-reserve requirements could also be substantially raised and open-market sales resumed.

Economic activity in Austria continued to expand rapidly in 1957, and nearly all economic sectors took part in the upswing. The gross national product rose by 10 per cent. in terms of current prices and by about 6 per cent. in volume; the balance of payments showed a current surplus equivalent to \$31 million, and over \$70 million of foreign capital entered the country.

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

Year	Deposits			Credit granted (commercial)	Excess (+) of deposits over credit granted
	Current-account	Savings	Total		
round figures, in millions of schillings					
1954	3,790	2,530	6,320	4,270	+ 2,050
1955	— 600	2,460	1,860	3,990	— 2,130
1956	90	2,520*	2,610	2,940	— 330
1957	1,200	4,080*	5,280	3,810	+ 1,470
Outstanding at the end of 1957	16,570	16,600*	33,170	28,640	+ 4,530

* Not including capitalised interest.

New savings deposits totalled Sch. 4.1 milliard — an increase of Sch. 1.6 milliard over the figure for 1956 and one of more than 30 per cent. over the amount outstanding at the end of that year. New savings deposits were well in excess of new credit granted by the credit institutions, and this state of affairs, combined with the expansive effect of the inflow of foreign exchange, led to an increase in the liquidity of these institutions, as is shown by the fact that they were able to channel some Sch. 1.5 milliard of funds to the central bank (by increasing their deposits, repurchasing Treasury bills and reducing their rediscounting).

In 1957, the credit institutions can be said to have financed more than one-half of the increase — of Sch. 2.8 milliard — in the gold and foreign exchange holdings, so that the note circulation rose by only Sch. 1.1 milliard and was covered by monetary reserves to the extent of 85 per cent.

In April 1957 the agreements between the monetary authorities and the credit institutions concerning credit controls were revised and put on a new basis. The credit ceilings are now calculated on the basis of the institutions' own free funds (i.e. capital and reserves, minus the amount tied in fixed investments) plus external non-bank resources. Credit ratios are not fixed in the new agreement but only in supplements thereto, so that in future

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						
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
1957	15,400	2,650	1,990	13,240	1,270	190
Changes in 1956	+ 1,230	— 50	+ 130	+ 1,200	+ 390	— 10
1957	+ 1,140	+ 550	— 80	+ 2,770	— 910	— 210

they can be adjusted as required without any change being made in the agreement itself. The interest rates allowed by the banks on deposits have remained unchanged since July 1955 and those charged by the Austrian National Bank have not been altered since November of the same year.

The change in the liquidity position of the capital and money markets in Switzerland which began in the second half of 1956 continued up to the third quarter of 1957, when the situation started to ease — a process which is still going on at the time of writing.

The rate of monetary saving has shown a tendency to fall off in recent years, but the level of savings remains high and the shortage of funds has been mainly due to an exceptionally strong demand for credit for investment purposes. On 15th May 1957 the Swiss National Bank, for the first time since November 1936, made a change in its discount and lombard rates, increasing them by 1 per cent. to 2½ and 3½ per cent. respectively.

Interest rates in the capital market, which had been moving upwards since 1955, did not react sharply to the new official rate, but rose gently until September, when their trend was reversed. The yield on Federal bonds, which was 2.70 per cent. in January 1955, was up to 3.64 per cent. on 10th May 1957 and reached its highest point — 3.93 per cent. — in the course of September. It then declined slowly but steadily, and by mid-April 1958 was down to 3.20 per cent. Rates on mortgage loans already in existence have been only partially adjusted to the new situation; they increased, on an average, by less than ¼ per cent. between April 1957 and April 1958. The rate charged on new first mortgages taken out after this date is something over 4 per cent.

Time and savings deposits and other longer-term funds held by the Swiss banks increased during 1957 by nearly Sw.fcs 2 milliard, i.e. Sw.fcs 800 million more than in the preceding year, most of the increase having been accounted for by time deposits. Bank lending during the year as a whole remained below the amount of the banks' new loanable funds, and their cash holdings thus rose by over Sw.fcs 400 million (compared with only Sw.fcs 25 million the previous year).

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	+ 25	+ 35	+ 880	+ 820	- 180
1957	+ 250	+ 1,975	+ 410	+ 155	+ 445	+ 790	+ 55
Outstanding at the end of 1957 . .	6,900	21,425	2,095	2,435	8,690	13,775	2,560

Switzerland: Capital-market issues.

Items	1953	1954	1955	1956	1957
	in millions of Swiss francs				
Domestic issues (net)					
Bonds	12.3	- 59.6	332.7	550.8	944.8
Shares	21.3	49.6	173.0	152.0	174.0
Total	33.6	- 10.2	505.7	702.8	1,118.8
Foreign issues (gross)	224.5	395.4	427.3	294.8	4.9
Grand total	258.1	385.2	933.0	997.6	1,123.7

In the capital market, new issues for the first time totalled over Sw.fcs 1 milliard, and practically the whole of this amount was absorbed by domestic issues, whereas in previous years foreign issues had often preponderated. A considerable proportion of the new issues (about Sw.fcs 365 million) were for the purpose of financing hydro-electric development plans, while the total of the banks' issues was even larger (Sw.fcs 450 million).

In the second half of 1957 and the first quarter of 1958 most issues were made at 4½ per cent.; since April, however, a rate of 4¼ per cent. has prevailed. The increase in time and savings deposits and capital-market issues in 1957 was made possible by a substantial net repatriation of funds.

Economic and monetary developments in Italy in 1957 reflected the continuation of a trend towards equilibrium which has been going on in practically all sectors since 1947-48. Foreign trade and payments are being progressively liberalised and foreign exchange reserves are increasing, partly owing to a satisfactory inflow of capital from abroad. Relations between employers and labour have been fairly peaceful since the introduction of the Vanoni scheme; wholesale prices are still somewhat lower than they were in 1948; and, last but not least, the gradual improvement in the budget situation has reached the point at which the current surplus covers the

Italy: New financial resources.

Items	1954	1955	1956	1957
	in milliards of lire			
Domestic funds				
Funds supplied by the banks	854	973	895	661
by the capital market	542	580	631	726
Total	1,396	1,553	1,526	1,387
Counterpart funds	20	20	21	15
Grand total	1,416	1,573	1,547	1,402
Used by				
Central government	455	438	190	210
Economy	961	1,135	1,357	1,192

greater part of the government's capital outlay, so that the Treasury is in a position to let the rest of the economy have the benefit of nearly all newly-formed monetary savings.

In 1957 new financial resources totalled Lit. 1,402 milliard, i.e. somewhat less than in previous years, but, while the proportion of these funds used by the central government and the private economy remained practically unchanged (the government absorbing 15 per cent. of the total), there was a considerable increase in the amount channelled through the capital market, which, at Lit. 726 milliard, exceeded, for the first time, the declining amount supplied by the banks.

Credit granted by the banks in 1957 amounted to Lit. 661 milliard, or Lit. 234 milliard less than in 1956. This unusual decrease was mainly the result of a fall in the amount of bills discounted for the wheat pools (which were repaid with funds contributed by the Treasury to make good the losses incurred by the pools) and a reduction in other loans to agriculture following the disposal of surplus stocks. All but Lit. 60 milliard of the new credit was covered by an increase in the time and savings deposits held with the banks, so that it was the additional Lit. 187 milliard arising from the inflow of gold and foreign exchange that accounted for the greater part (fully two-thirds) of the expansion in the money supply. The expansion over the end-of-year figure for 1956 amounted to Lit. 282 milliard, or 6 per cent. — an increase somewhat smaller than that in the gross national product.

The first quarter of 1958 was marked by a counter-seasonal rise of nearly \$100 million in the foreign exchange reserves, and the economy thus

Italy: Formation of the money supply.

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of lire				
Changes in the money supply					
Currency	+ 96	+ 142	+ 169	+ 92	2,157
Demand deposits	+ 46	+ 256	+ 175	+ 190	2,624
Total	+ 142	+ 398	+ 344	+ 282	4,781
Changes in corresponding items					
Bank credit to the economy	+ 605	+ 698	+ 809	+ 547	6,401
to the central government	+ 249	+ 275	+ 86	+ 114	3,506
Total bank credit	+ 854	+ 973	+ 895	+ 661	9,907
Gold and foreign exchange	+ 4	+ 59	+ 81	+ 187	1,034
Other items	- 86	- 114	- 53	+ 31	- 726
Total	+ 772	+ 918	+ 923	+ 879	10,215
Increase (—) in time and savings deposits	- 630	- 520	- 579	- 597	- 5,434
Grand total	+ 142	+ 398	+ 344	+ 282	4,781

received an injection of liquidity which has helped to bring down the still rather high level of interest rates. The yield on government securities, which averaged 6.94 per cent. in January 1957 and rose to 7.37 per cent. in October, was down to 6.16 per cent. by April 1958.

In Belgium an increase in the gross national product was accompanied in 1957 by a decline in the volume of money. Between January and June 1957, however, the money supply expanded at the same rate as in 1956 because of heavy borrowing by the government, which more than offset the contractive effects of the overall deficit in the balance of payments.

Belgium: Formation of the money supply.*

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	in milliards of Belgian francs				
Changes in the money supply					
Currency	+ 0.8	+ 4.0	+ 3.7	+ 1.1	115.5
Demand deposits	+ 2.5	+ 5.1	+ 2.5	- 1.6	82.9
Total	+ 3.3	+ 9.1	+ 6.2	- 0.5	198.4
Changes in corresponding items					
Bank credit to the private economy	+ 3.0	+ 2.7	+ 4.6	+ 3.7	52.7
to the public sector . .	+ 1.0	+ 3.0	+ 3.5	- 0.9	128.6
Total bank credit . . .	+ 4.0	+ 5.7	+ 8.1	+ 2.8	181.3
Gold and foreign exchange (net) . .	- 2.0	+ 6.4	- 0.7	+ 1.9	55.9
Other items	+ 4.1	+ 0.4	- 0.4	- 2.5	0.4
Total	+ 6.1	+ 12.5	+ 7.0	+ 2.2	237.6
Increase (-) in time and savings deposits, etc.	- 2.8	- 3.4	- 0.8	- 2.7	- 39.2
Grand total . . .	+ 3.3	+ 9.1	+ 6.2	- 0.5	198.4

* Data from the consolidated balance sheet of the monetary institutions.

For the year as a whole, bank credit to the public sector showed a decline of B.fcs 0.9 milliard, compared with an increase of B.fcs 3.5 milliard in the previous year; bank credit to the private economy continued to expand, though less than in 1956, and net gold and foreign exchange reserves rose by B.fcs 1.9 milliard. In 1956 these reserves had fallen and they continued to do so during the first three quarters of 1957, but the trend was reversed in the autumn, when they rose by as much as B.fcs 6.6 milliard. Time deposits and other longer-term funds held with the banks increased in 1957 much more than in 1956, partly in unusually quick response to the increase, in mid-November 1957, in the interest rates allowed by banks on time deposits, the rate on one-month deposits having then been raised from 1.10 to 2.30 per cent. and that on six-month deposits from 1.75 to 3.15 per cent.

Important changes were made in 1957 in the monetary and credit system in Belgium. First, by a law of 12th April, the Belgian franc was

defined as a unit of 0.019 748... grammes of coin bar gold (900/1000) and the obligation of the central bank to maintain a minimum gold cover of one-third of its sight liabilities was established. Secondly, three decrees were published in the first half of November, the aim of which was to permit the banks to increase the rates of interest paid on longer-term deposits and to change these rates in response to variations in the official discount rate, to increase the opportunities for the "Fonds des Rentes" to operate in the open market, to do away with rigid money-market rates and to put an end to the state of affairs in which a large proportion of new deposits accruing to the banks automatically flowed into the Treasury.

As far back as January 1946 it had been ruled, with a view to forestalling the possible monetisation of the public-debt paper held in the banks' portfolios, that each bank's holdings of cash and government paper should represent a given percentage of its liabilities. In the case of the large and medium-sized banks (together possessing over 80 per cent. of the total of banking assets), the main item in the cover in respect of liabilities at sight and up to one month's notice was to consist of special Treasury certificates bearing interest at 1 15/16 per cent. and maturing within one year.

Until recently, owing to the growth in bank deposits, this system assured the Belgian Treasury of a steady flow of funds, and in periods of easy liquidity the banks even made investments in this type of Treasury paper well in excess of the legal requirements. In the course of 1957, however, the situation changed. An adverse development in the balance of payments, due to outflows of capital, had the effect of reducing market liquidity. Deposits stopped rising and then began to decline, with the result that the Treasury not only lost a source of funds but actually had to provide for some reimbursement. At the same time the Belgian Congo was withdrawing some of its balances invested in Treasury certificates, and the Treasury was consequently compelled to have recourse to an overdraft of some B.fcs 2.5 milliard on its line of credit of B.fcs 10 milliard at the National Bank of Belgium.

In November 1957 measures were introduced to protect the Treasury from sudden losses of funds (and at the same time to prevent it from being fed automatically through an increase in deposits) and steps were also taken to provide the National Bank with more flexible instruments of monetary policy. The Belgian Treasury decided to discontinue — as from 12th November 1957 — the issue of special certificates for use in covering banking requirements. Those outstanding at the end of October, amounting to B.fcs 28.9 milliard, were exchanged for certificates of a new issue of a special type, consisting of two "tranches", viz.:

Tranche A, comprising B.fcs 20 milliard of twelve-month certificates, bearing interest at 1 15/16 per cent., paid in advance; and

Tranche B, comprising B.fcs 8.9 milliard of four-month certificates, bearing interest at $3\frac{3}{4}$ per cent., paid in advance. On renewal the rate will be fixed at $\frac{3}{4}$ per cent. below the main official discount rate in force at the time, subject to a minimum of 2 per cent.

The cover for the banks' liabilities mentioned above can now consist of: (i) certificates of Tranches A and B, (ii) certificates issued by the "Fonds des Rentes" (Government Stock Equalisation Account) and (iii) balances at the central bank. Thus, when deposits increase, the meeting of this requirement by the banks will result in a flow of funds not to the Treasury but to the Fonds or the bank, and the reverse will happen when there is a fall in deposits. In this case, if the Fonds is in need of resources it must first of all seek to obtain them in the call-money market, and only if the supply from this source proves inadequate will it be allowed to borrow temporarily from the central bank.

Also in November 1957 the Belgian Treasury decided, with a view to the creation of an active short-term money market, to issue, in addition to the two "tranches" mentioned above, two types of certificate (transferable only among money-market institutions and eligible as cover for the banking coefficients); the interest rate on which will vary according to the supply/demand position. One type of certificate — with currency periods of fifteen days to four months — will be issued through the intermediary of the National Bank of Belgium in such amounts as the latter considers necessary. The other type of certificate — with currency periods of six to twelve months — will be tendered on the market.

Both the money and capital markets remained very tight until almost the end of 1957. In July the National Bank raised its discount rate by 1 per cent. to $4\frac{1}{2}$ per cent. and in September the yield on government securities rose to almost 7 per cent. The various measures adopted in November led to an easing of the situation and so did the large balance-of-payments surplus in the last quarter. When, on 27th March 1958, the National Bank decided to reduce its official discount rate by $\frac{1}{4}$ per cent. to $4\frac{1}{4}$ per cent., the whole structure of interest rates had already been moving downward for some time.

The inflationary pressure from which the Netherlands suffered in 1956 and which caused a deterioration of nearly Fl. 1 milliard in the country's gold and foreign exchange position in that year continued up to the summer of 1957, when it culminated in foreign exchange disturbances which, although they were caused mainly by developments abroad, marked a turning point in the domestic situation too.

For 1957 as a whole the main developments brought out by the monetary balance sheet of the Netherlands are as follows:

- (i) Bank credit to the public authorities, as well as to the private economy, was less than in 1956. For the two groups together the decline amounted to over Fl. 250 million, of which four-fifths was accounted for by the private sector. This decline is largely attributable to action taken by the central government and by the Nederlandsche Bank, which will be summarised later on.
- (ii) Gold and foreign exchange holdings fell by Fl. 274 million. During the first three quarters of 1957 the loss of reserves exceeded Fl. 700 million, but in the last quarter there was an inflow of Fl. 440 million.

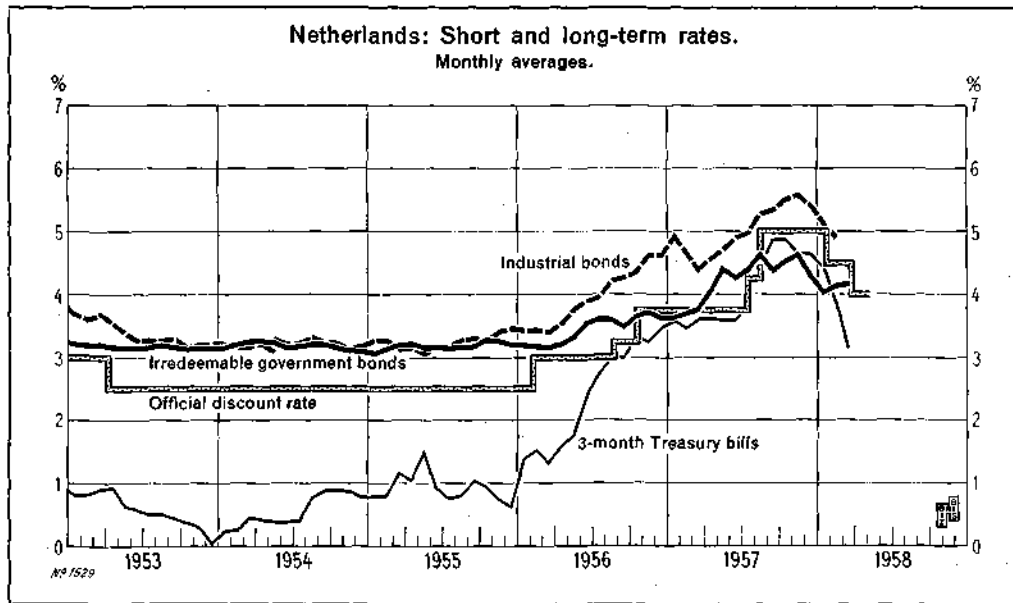
Netherlands: Formation of the money supply.*

Items	1954	1955	1956	1957
	In millions of florins			
Changes in the money supply				
Currency	+ 289	+ 373	+ 111	+ 136
Demand deposits	+ 270	+ 382	- 468	- 337
Total	+ 559	+ 755	- 357	- 201
Changes in corresponding items				
Bank credit to public authorities	+ 160	+ 249	+ 282	+ 209
to the private economy	+ 438	+ 423	+ 395	+ 191
Total bank credit	+ 598	+ 672	+ 677	+ 400
Gold and foreign exchange holdings	+ 248	+ 208	- 989	- 274
Other items (net)	- 19	+ 84	+ 7	- 38
Total	+ 824	+ 964	- 325	+ 88
Increase (—) in time deposits	- 265	- 209	- 32	- 289
Grand total	+ 559	+ 755	- 357	- 201

* Including postal giro accounts.

- (iii) Time deposits increased by Fl. 289 million (compared with a rise of only Fl. 32 million the year before).
- (iv) The loss of monetary reserves and the accumulation of funds in time deposits together greatly exceeded the total of newly granted credit, so that the money supply fell by about Fl. 200 million. In the two years 1956-57, taken together, the money supply declined by 6 per cent., while the gross national product at current prices rose by nearly 15 per cent.

As early as 1956 the Nederlandsche Bank raised the official discount rate by $1\frac{1}{4}$ per cent. to $3\frac{3}{4}$ per cent. in three stages, and the losses of monetary reserves in that year considerably reduced market liquidity. The market was thus becoming very sensitive to monetary measures, and the government gave additional support to the monetary authorities by curbing the volume of public investment, suspending tax facilities in respect of private investments and increasing the corporation tax. In the course of 1957 the government took action in a field in which increasing expenditure threatened to nullify the efforts made in other sectors, namely that of the local authorities' investment-financing — mainly in relation to house-building. In July 1957 the local authorities were asked to undertake fresh investments only if the necessary long-term finance was secured. This request was prompted by the need to stop local authorities which could not raise sufficient long-term funds from borrowing at short and very short term for investment purposes. When it was found that these authorities were unable to obtain sufficient loans, even on the money market, to meet commitments already entered into and redeem maturing short-term debt, the central government itself undertook to provide them with the necessary funds so as to prevent a cessation of payments. In 1957 such credits totalled Fl. 530 million.



In the summer of 1957 the Nederlandsche Bank, in view of the increased applications for central-bank credit and a fresh fall in foreign exchange reserves, raised its official discount rate by $\frac{1}{2}$ per cent. to $4\frac{1}{4}$ per cent. (17th July) and again by $\frac{3}{4}$ per cent. to 5 per cent. (16th August) — the latter being the highest level since the autumn of 1935.

Interest rates in the market, after a period of uncertainty, had resumed their upward movement well in advance of the Nederlandsche Bank's decision.

At the beginning of September the commercial banks were advised by the central bank to moderate their lending, the Nederlandsche Bank stating that it would charge penal rates for its own accommodation if its advice were not followed. Early in the fourth quarter of 1957, however, the situation began to change. The government measures were beginning to make themselves felt and the reflux of foreign exchange relieved the strain on the liquidity of the market, with the result that interest rates began to show a distinct downward trend. In view of all these elements and of the disappearance of excessive boom conditions at home and abroad (as evidenced by the reduction of the official discount rates in various countries), the Nederlandsche Bank reduced its official discount rate in two stages (on 24th January 1958 and again on 25th March) from 5 to 4 per cent.

The policy of monetary and credit restraint pursued by Denmark since 1954 has led to a considerable improvement in various fields — an improvement which became particularly noticeable between the middle of 1957 and the end of the first quarter of 1958. In 1957 the national product increased by some 6 per cent. in terms of current values and by nearly 5 per cent. in volume, the price factor having made a difference of only 1 per cent.

Danmarks Nationalbank: Main assets and liabilities.

Items	Change during				Outstanding at the end of 1957
	1954	1955	1956	1957	
<i>in millions of Danish kroner</i>					
Liabilities					
Notes in circulation	+ 26	+ 72	+ 155	+ 59	2,432
Sight deposits	- 78	+ 47	- 64	- 9	369
Total	- 52	+ 119	+ 91	+ 50	2,801
Assets					
Gold and foreign exchange (net) . .	- 498	- 67	+ 7	+ 339	176
Credit to the economy	+ 198	- 149	- 59	+ 63	252
Credit to the Treasury (net)	+ 263	+ 197	+ 39	- 373	2,132
Other items (net)	- 15	+ 138	+ 104	+ 21	241
Total	- 52	+ 119	+ 91	+ 50	2,801

The changes in the main items in the balance sheet of the National Bank show clearly the improvement in the situation. First of all, net gold and foreign exchange holdings rose in 1957 by D.Kr. 339 million (moreover, this figure does not include the holdings of the commercial banks, which also increased, by D.Kr. 165 million). Of the improvement in the Treasury and foreign exchange position, \$34 million (D.Kr. 235 million) was the result of a drawing on the I.M.F. in June 1957; even so, however, there was a very welcome change in the position of the Treasury vis-à-vis the central bank, the former having been able to repay D.Kr. 373 million of its debt. Although the central bank relaxed its credit policy somewhat, lending D.Kr. 63 million to the economy in 1957, the disinflationary effect of the Treasury repayments almost entirely offset the liquidity created by the inflow of foreign exchange and the new credit to the economy, and the total sight liabilities of the National Bank increased by only D.Kr. 50 million, i.e. by less than 2 per cent.

The official discount rate of the central bank, which was raised to 5½ per cent. in June 1954, was kept at this high level until mid-April 1958. In order to bring about a really rapid change in the situation it was necessary that the government should co-operate fully by having less recourse to the money market — and possibly also the capital market — and by adopting fiscal measures designed to reduce consumption and release funds for the increased volume of investment needed to carry on the industrialisation of the country. Before parliament adjourned for the summer recess in 1957 it approved the following measures proposed by the government:

- (i) the issuing of a compulsory loan (stabilisation loan) to be subscribed over two years by individual taxpayers in the higher tax brackets (150,000 out of over 2 million), the yield on the loan in the two years being estimated at D.Kr. 400 million;
- (ii) the creation of a tax-free investment fund to be used later to finance investment in plant and equipment;
- (iii) the limitation of dividends to a rate 10 per cent. below that of 1956;

(iv) the raising of employers' contributions to social insurance schemes and of the taxes on motor-cars, cigarettes, wines and beer.

Towards the end of the year interest rates began to move slowly downwards, and this trend continued in the early months of 1958. Between the end of October 1957 and the end of March 1958 the yield on government loans fell from 7 to 6 per cent. This was due both to the increased liquidity resulting from the improvement in the country's external balance (reserves increased by nearly D.Kr. 200 million in the first quarter of 1958, in spite of repayments to the I.M.F.) and to the fact that the Treasury ceased to sell bonds, the budget surplus having become large enough to provide the finance necessary for the Treasury's housing loans.

In April 1958 the National Bank reduced its official discount rate from 5½ to 5 per cent. and the commercial and savings banks followed suit, lowering their charges by ½ per cent. They did not, however, reduce the rates allowed on deposits, and the rate for nine-month deposits — 5 per cent. — is now level with Bank rate.

In the past years there seems to have been a certain correlation in Norway between changes in government deposits at the central bank and the latter's net gold and foreign exchange holdings. In 1957 variations in the main items of the balance sheet of Norges Bank were very small, both in absolute amount and in relative terms, but while the increase in deposits by banks was more than offset by a reduction in the currency circulation, net gold and foreign exchange reserves rose by N.Kr. 80 million. For the third year in succession the government added to its deposit account with Norges Bank, this being to some extent the reflection of an improvement in the overall budget position, which, in turn, was partly due to a reduction in government lending to the state banks (from N.Kr. 735 million in 1955 to N.Kr. 546 million in 1956 and perhaps a little less than N.Kr. 500 million in 1957).

The combined balance sheets of the commercial and savings banks show that their cash holdings, too, have steadily increased since 1955. Loans and

Norges Bank: Changes in main assets and liabilities.

Change during	Assets	Liabilities		
	Net gold and foreign exchange reserves	Note circulation	Deposits	
			Banks	Government
round figures, in millions of Norwegian kroner				
1954	— 275	+ 195	— 165	— 350
1955	+ 125	— 15	+ 85	+ 130
1956	+ 300	+ 200	— 30	+ 55
1957	+ 80	— 35	+ 30	+ 55
Outstanding at the end of 1957	440	3,465	640	1,165

Norway: Changes in the main items of the balance sheets of the commercial and savings banks.

Change during	Assets				Liabilities		
	Cash and deposits with Norges Bank	Treasury bills	Bearer bonds and shares	Loans and discounts	Demand and fixed deposits	Time deposits	Total deposits
	round figures, in millions of Norwegian kroner						
1954.	- 135	- 115	+ 140	+ 665	+ 25	+ 430	+ 455
1955.	+ 55	- 85	- 95	+ 365	+ 170	+ 315	+ 485
1956.	+ 20	+ 30	+ 80	+ 125	-	+ 470	+ 470
1957.	+ 85	- 30	+ 80	+ 400	- 35	+ 515	+ 480
Outstanding at the end of 1957 . . .	1,055	145	2,675	9,055	3,070	8,990	12,060

discounts have risen by N.Kr. 400 million, but time deposits have increased at the same time by over N.Kr. 500 million.

The arrangements made in the autumn of 1955 to check the banks' lending activity during 1956-57 have been incorporated in a new agreement for 1958, which stipulates that the commercial banks' loans and advances are to be kept at the same level this year as in 1957 (while credit lines are to be reduced). The savings banks are to continue to invest at least half their new deposits in government or government-guaranteed issues and the life assurance companies are to increase their holdings of government paper by N.Kr. 200 million.

In 1958 the Norwegian Government is to issue two new loans:

- (i) a fifteen-year loan with an interest rate 1 per cent. above the official discount rate (but not less than 4½ per cent.); and
- (ii) a thirty-five-year loan with an interest rate of 5 per cent.

The first loan is mainly intended for savings banks, the second for insurance companies. The rates offered, though they seem high for Norway, are in line with market rates. The yield on the 4 per cent. state loan of 1955, which at the end of 1955 and 1956 was 4.06 and 4.27 per cent. respectively, had risen to 4.98 per cent. by August 1957 and stood at 4.79 per cent. at the end of the year.

In 1957 production and trade in Sweden continued to expand, although there were clear signs in the last quarter of the year that activity was levelling off. The national income rose by 6 per cent. in current values and around 2 per cent. in volume. In the monetary and credit field the most notable development has been the increasing recourse of the public authorities to the banking system.

Bank credit to the public authorities in 1957 is shown as S.Kr. 1,331 million — more than double the figure for the previous year. As banks were

Sweden: Formation of the money supply.*

Items	1954	1955	1956	1957	Outstanding at the end of 1957
	In millions of Swedish kronor				
Changes in the money supply					
Currency	+ 252	+ 231	+ 280	+ 242	5,840
Demand deposits	- 82	- 184	+ 101	- 63	2,049
Total	+ 170	+ 47	+ 381	+ 159	7,889
Changes in corresponding items					
Gold and foreign exchange	- 111	+ 38	+ 214	+ 73	2,838
Credit to public authorities (net) .	+ 259	+ 523	+ 519	+ 1,331	8,400
to the private economy	+ 878	- 579	+ 104	+ 178	10,890
Total credit	+ 1,137	- 56	+ 623	+ 1,509	19,290
Increase in time and savings deposits (-)	- 970	- 66	- 380	- 1,256	- 12,214
Other items	+ 114	+ 131	- 76	- 167	- 2,025
Grand total	+ 170	+ 47	+ 381	+ 159	7,889

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

compelled, up to mid-July, to keep their lending to private business below a fixed ceiling and as, later on, the substantial increase in interest rates damped down private demand for new credit, the liquidity injected into the market by government over-spending caused a sharp rise in time deposits with the banks. These went up by S.Kr. 1,256 million, compared with only S.Kr. 380 million in 1956. Changes in gold and foreign exchange reserves did not have any appreciable effect on the money supply, which increased by S.Kr. 159 million, or about 2 per cent.

Towards the middle of 1957 the Swedish monetary authorities found themselves confronted with a disquieting situation resulting from a deterioration in the state's financial position. Issues of bonds were meeting with a rather poor reception, so that the Riksbank had to take supporting action, and the rise in share prices pointed to growing fears of inflation. Furthermore, the slackness of the bond market made it impossible for the commercial banks to unload the credits granted for house-building. In view of this state of affairs the Riksbank raised the official discount rate, as from 11th July, by a full 1 per cent., from 4 to 5 per cent. — i.e. to the highest level since the crisis years 1931-32. The commercial banks immediately followed suit by raising their charges on advances by 1-1¼ per cent. and the rates allowed on time deposits by ¾ per cent.

The increase in interest rates was followed immediately by an improvement in the bond market and two housing-mortgage banks were able to obtain (together) some S.Kr. 450 million in subscriptions for two issues — a twenty-year 5½ per cent. loan and a five-year 5¼ per cent. loan. At the same time as it raised the discount rate the Riksbank abolished the regulations

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

Change during	Liquid assets			Loans and discounts			Deposits
	Cash	Government securities	Total	Building	All others	Total	
round figures, in millions of Swedish kronor							
1954	+ 0	- 300	- 300	+ 450	+ 710	+ 1,160	+ 890
1955	+ 310	- 90	+ 220	+ 0	- 560	- 560	- 120
1956	- 170	+ 340	+ 170	+ 440	- 330	+ 110	+ 480
1957	- 60	+ 1,140	+ 1,080	+ 70	+ 120	+ 190	+ 1,170
Outstanding at the end of 1957 . .	720	4,440	5,160	1,790	9,040	10,830	14,260

imposing a ceiling on the commercial banks' advances, warning them, however, that it was still necessary to exercise great restraint in their lending.

Over the year 1957 as a whole, the loans and discounts of the commercial banks increased by only S.Kr. 190 million, or less than 2 per cent., and after the rise in rates and the removal of the ceiling on bank advances there was actually a decline. The large addition to holdings of short-term government paper increased the liquidity of the commercial banks. At the end of 1957 their liquid assets amounted to S.Kr. 5,160 million, or 36 per cent. of total deposits, compared with only 31 per cent. twelve months before.

Early in 1958 the situation — following the general world trend — eased considerably and interest rates declined somewhat; on 3rd May the Riksbank reduced its official discount rate by $\frac{1}{2}$ per cent. to $4\frac{1}{2}$ per cent.

In 1957 Finland devalued its currency and undertook a considerable liberalisation of trade and payments. Credit measures both preceded and accompanied the devaluation of the markka in mid-September 1957. At the beginning of the year the money market was very tight. In 1956, as a result of the decline in deposits, the banks had been compelled to resort to central-bank credit on a very large scale, and at the end of that year rediscounted bills had amounted to as much as FM 33.7 milliard.

In April 1957 the Bank of Finland announced that it intended to place a ceiling on rediscounts as from 1st August of that year, and the proposed ceiling was so restrictive that the banks had to begin at once to reduce their outstanding credit. This plan, however, was abandoned in June 1957 and a new system of penalty rates was introduced in its place. Up to the end of July the banks had to pay the highest official discount rate plus a 3 per cent. penalty charge on their borrowing from the central bank. As from 1st August the penalty charge was made variable, ranging from nil to 5 per cent. according to the ratio of the banks' rediscounts to their capital and reserves.

The devaluation of September 1957 was accompanied by the introduction of an export levy whereby exporters were obliged to surrender a certain

proportion of the proceeds of their sales abroad to the central bank. This proportion ranged from 3 to 21 per cent., the highest rate applying to paper exports, and the funds paid in were to be credited to special non-interest-bearing accounts. The first FM 10.6 milliard of these accounts is being used to reduce — by one-half — the 1953 Treasury loan held by the central bank (see the Twenty-fourth Annual Report of the B.I.S., page 193); further sums accruing are to be utilised — not before 1st July 1958 and only if the central bank considers it desirable — to grant special low-interest loans for creation-of-work purposes and the exploitation of natural resources.

Finland: New deposits and credit granted.*

Items	1954	1955	1956	1957	Out-standing at the end of 1957
	in milliards of markkaa				
New deposits received (demand, time and savings)	46.6	46.8	9.8	16.2	385.1
Credit granted (bills, loans and advances)	49.4	52.2	20.0	3.1	386.3
Excess of credits over deposits (—)	— 2.8	— 5.4	— 11.2	+ 13.1	— 1.2

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

A decline in the lending of the credit institutions and a revival in the formation of deposits — following the rise in the net gold and foreign exchange holdings after the devaluation — led to an increase in the banks' liquidity. Index-tied deposits rose in the course of the year from FM 22.5 to 82.4 milliard and by December 1957 they accounted for one-quarter of the total of time and savings deposits.

During 1957 the amount of bank-notes in circulation remained practically unchanged, notwithstanding the final release by the National Bank of some FM 4.1 milliard of import-licence deposits and the substantial addition to the central bank's net holdings of gold and foreign exchange.

Very high rates of interest prevailed in Finland throughout the period under review, and when, in January 1958, the government had to borrow FM 4 milliard from the commercial banks, it had to pay interest at 13 per cent. — i.e. the maximum rate applied by the Bank of Finland to rediscounts — whereas the charges made by the state itself on its ever-increasing lending are 1 per cent. on housing loans, 3 per cent. on colonisation loans and 8 per cent. (since November 1957) on creation-of-work loans, the rates payable being inversely related to the duration of the loans.

In February and April 1958 the rates of the export levy were reduced to between 1.1 and 14 per cent.; and as from 1st May the rediscounting regulations were somewhat relaxed and the banks lowered the interest rate on their FM 4 milliard loan to the government from 13 to 8 per cent.

* * *

Now, towards the end of the spring of 1958, the monetary authorities in more than one country are faced with the problem of preventing a slight recession from lasting too long while at the same time avoiding policies and methods that would make future inflationary pressures unavoidable. Even in countries where little has been done in the past six months to increase the liquidity of the banks and of business, liquidity has been growing as a result either of an improvement in the external position or of a reduction of commodity stocks or, again, of a decline in investment in fixed assets, while monetary savings have continued to flow to the banks and the capital markets.

In the short run the availability of ample credit at low rates can be the basis for a relatively quick revival of business. From a somewhat longer-term point of view, however, there is a danger that the liquidity which is being built up may be mobilised in such a way as to bring about a fresh spell of inflation — especially if, in the meantime, governments have embarked on large-scale anti-recession programmes of a type that cannot be immediately halted or reduced.

The monetary authorities can always influence — to a varying extent — the lending capacity of the banks, but they have not much power to affect directly the propensity of the public at large and of business in particular to finance part of their expenditure out of their own reserves of liquid resources. It therefore behoves them to keep the most careful watch on developments in the near future, and in any action that they have to take they will need the full understanding and co-operation of the government, the banks and all economic organisations.

Money supply and gross national product.

Year	Money supply		Gross national product (at market prices)	Ratios to gross national product of		
	Total	of which currency		Currency	Sight deposits	Total money supply
	round figures, in millions of national currency units			In percentages		
Austria (schillings)						
1949	11,950	5,680	40,300	14.1	15.5	29.6
1953	20,270	9,110	77,800	11.7	14.4	26.1
1955	29,480	12,120	100,400	12.1	17.3	29.4
1956	29,200	13,070	110,600	11.8	14.6	26.4
1957	31,490	14,300	121,800	11.7	14.1	25.8
Belgium (francs)						
1938 ¹	41,200	23,600	80,000	29.5	22.0	51.5
1949	150,540	89,120	347,400	25.6	17.7	43.3
1953	175,120	103,340	432,800	23.9	16.6	40.5
1955	186,700	108,610	476,400	22.8	16.4	39.2
1956	193,390	111,460	503,500*	22.1	16.3	38.4
1957	196,640	114,030	525,000*	21.7	15.7	37.4
Denmark (kroner)						
1938	2,410	410	7,860	5.2	25.5	30.7
1945	7,780	1,400	14,480	9.6	44.1	53.7
1949	6,430	1,500	20,210	7.4	24.4	31.8
1953	7,080	1,890	28,650	6.6	18.1	24.7
1955	7,260	2,010	31,150	6.4	16.9	23.3
1956	7,570	2,150	33,360	6.4	16.3	22.7
1957	7,970	2,220	35,250	6.3	16.3	22.6
Finland (markkas)² in milliards						
1938	5	2	36	6.3	8.0	14.3
1945	27	17	118	14.4	8.6	23.0
1949	52	28	425	6.7	5.5	12.2
1953	78	45	815	5.5	4.1	9.6
1955	90	52	986	5.3	3.9	9.2
1956	96	59	1,118	5.3	3.3	8.6
1957	96	59	1,200*	4.9	3.0	7.9
France (francs) in milliards						
1938	200	120	440	26.7	18.4	45.1
1946	1,210	670	3,020	22.1	18.0	40.1
1949	2,440	1,180	8,600	13.7	14.7	28.4
1953	4,370	2,200	14,930	14.7	14.5	29.3
1955	5,540	2,700	17,020	15.8	16.7	32.5
1956	6,240	3,010	18,590	16.2	17.3	33.5
1957	6,730	3,250	20,520	15.9	16.9	32.8
Germany (D. Mark)³						
1950	16,410	7,770	97,200	8.0	8.9	16.9
1953	23,620	11,350	143,800	7.9	8.5	16.4
1955	28,540	13,300	175,600	7.6	8.7	16.3
1956	31,140	14,510	192,500	7.5	8.7	16.2
1957	34,270	15,850	207,000	7.7	8.9	16.6
Italy (lire) in milliards						
1938	40	20	150	14.6	10.7	25.3
1947	1,230	720	6,020	11.9	8.5	20.4
1949	2,010	1,070	7,610	14.0	12.3	26.3
1953	3,280	1,470	11,090	13.3	16.3	29.6
1955	3,730	1,670	12,950	12.9	15.9	28.8
1956	4,060	1,790	13,940	12.8	16.3	29.1
1957	4,340	1,900	14,910	12.7	16.4	29.1

See notes on next page.

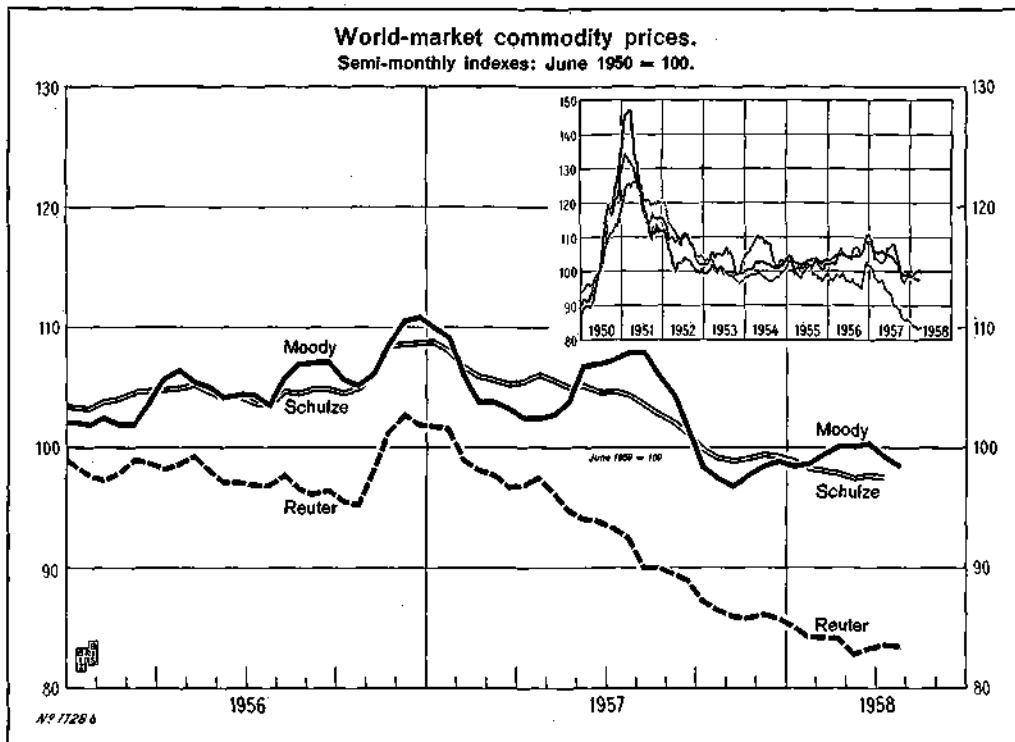
Money supply and gross national product (contd).

Year	Money supply		Gross national product (at market prices)	Ratios to gross national product of		
	Total	of which currency		Currency	Sight deposits	Total money supply
	round figures, in millions of national currency units			In percentages		
Netherlands (florins)						
1938	2,480	990	5,900	16.8	25.2	42.0
1948	5,500	2,400	10,700	22.4	29.0	51.4
1949	7,280	3,070	17,500	17.5	24.1	41.6
1953	8,280	3,250	24,040	13.5	20.9	34.4
1955	9,400	3,850	28,990	13.2	19.2	32.4
1956	9,560	4,170	31,030	13.4	17.4	30.8
1957	9,330	4,260	33,200	12.8	15.3	28.1
Norway (kroner)						
1938 ¹	620	460	5,860	7.7	2.9	10.6
1948 ¹	4,320	1,870	11,030	17.0	22.2	39.2
1949	5,060	2,060	15,020	13.7	20.0	33.7
1953	5,980	2,770	22,820	12.1	14.1	26.2
1955	6,020	3,050	26,180	11.7	11.3	23.0
1956	5,980	3,070	29,210	10.5	9.9	20.4
1957	6,200	3,150	31,660	10.0	9.6	19.6
Sweden (kronor)						
1938	2,780	960	12,000	8.0	15.2	23.2
1948	6,060	2,500	20,500	12.2	17.4	29.6
1949	7,500	3,090	29,240	10.6	15.1	25.7
1953	10,100	4,470	43,240	10.3	13.0	23.3
1955	10,550	4,960	49,110	10.1	11.4	21.5
1956	10,910	5,220	53,040	9.9	10.7	20.6
1957	11,410	5,490	56,410	9.7	10.5	20.2
Switzerland (francs)						
1938	4,570	1,780	9,800	18.2	28.4	46.6
1948	8,240	3,820	15,200	25.1	29.1	54.2
1949	10,340	4,590	19,300	23.8	29.8	53.6
1953	12,340	5,250	24,300	21.6	29.2	50.8
1955	13,120	5,580	27,700	20.2	27.2	47.4
1956	13,780	5,740	29,400	19.5	27.4	46.9
1957	14,430	6,010	31,000*	19.4	27.2	46.6
United Kingdom (pounds)						
1938	1,630	440	5,780	7.7	20.5	28.2
1948	4,550	1,340	9,950	13.5	32.3	45.8
1949	4,990	1,250	12,510	10.0	29.9	39.9
1953	5,230	1,460	16,870	8.7	22.3	31.0
1955	5,500	1,660	19,110	8.7	20.1	28.8
1956	5,480	1,770	20,580	8.6	18.1	26.7
1957	5,520	1,840	21,730	8.5	16.9	25.4
United States (dollars)						
1938	30,750	5,600	85,230	6.6	29.5	36.1
1948	105,960	26,400	209,250	12.6	38.0	50.6
1949	108,520	25,070	257,300	9.8	32.4	42.2
1953	125,960	27,280	363,220	7.5	27.2	34.7
1955	132,230	27,190	391,890	6.9	26.8	33.7
1956	133,890	27,540	414,690	6.6	25.7	32.3
1957	134,550	27,770	434,400	6.4	24.6	31.0

* Unofficial estimate. ¹ End of period. ² Money supply gross. ³ Including sight deposits of public authorities.
 Note: The figures for currency circulation and total money supply are annual averages of end-of-month data.
 The total money supply consists of the currency circulation (notes and coins) and demand deposits.

IV. Prices and Production.

The outstanding event of 1957 in the field of prices was the pronounced fall in the world-market prices of raw materials and foodstuffs. On the other hand, wholesale prices continued to rise in some important industrialised countries in the West and consumer prices went on increasing in all countries throughout the year; not until the first quarter of 1958 was there a more general decline in wholesale prices, accompanied in a few cases by a slight fall in consumer prices.



From the end of 1956 to the end of 1957 world-market commodity prices fell by nearly 9 per cent. (as measured by Schulze's Index, which is the most comprehensive of the available indexes). All the principal groups participated in the decline: prices of foodstuffs went down by nearly 8 per cent. and those of industrial raw materials by over 9 per cent. These changes were in contrast to the course of events in the preceding year, when the index, influenced by the Suez crisis, rose by 5 per cent.

A comparison of the most important indexes shows that Schulze's Index fell less than the others. Moody's Index declined in 1957 by 11.5 per cent., while the "Financial Times" index of sensitive world commodity prices went down by only 9.1 per cent. and Reuter's Index by no less than 15.8 per

cent. These discrepancies are attributable to the different coverage and construction of the indexes in question. Moody's Index reflects domestic price trends in the United States and was influenced by the relative stability of the U.S. agricultural markets for, inter alia, cereals, cotton and pigs. On the other hand, the British Reuter's Index, quoting c.i.f. prices, was particularly affected by the sharp fall in freight rates, which tended to cheapen British imports, while U.S. quotations were less influenced by such developments.

World-market commodity prices.

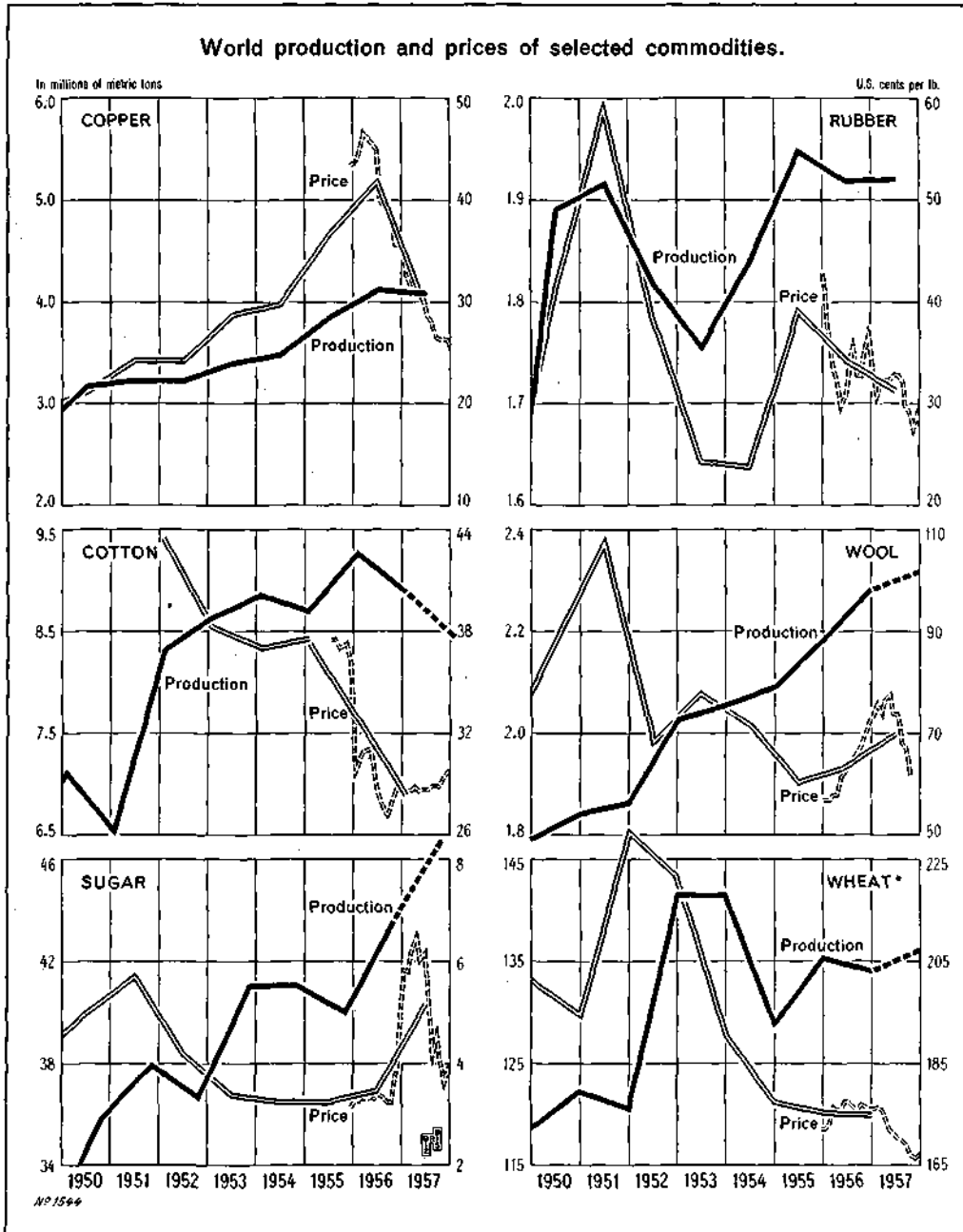
Indexes	Percentage changes during				1958 1st quarter
	1955	1956	1957	1955-57	
Schulze					
Cereals	- 9.4	+ 4.8	- 8.1	- 12.8	+ 0.3
Beverages	- 25.9	+ 21.4	- 9.5	- 18.6	- 0.2
Meat	- 3.6	+ 5.9	- 6.3	- 4.3	+ 3.7
Fats	+ 7.2	- 12.9	- 2.1	- 8.6	- 7.0
Oilseeds	- 3.0	+ 18.4	- 9.0	+ 4.5	- 2.1
Hides and skins	+ 12.0	- 9.8	- 3.5	- 2.4	- 0.7
Textiles	- 4.7	+ 17.4	- 8.3	+ 2.6	- 3.6
Coal	+ 2.7	+ 3.0	- 1.3	+ 4.4	- 0.4
Iron and steel	+ 8.4	+ 7.1	- 6.3	+ 8.7	- 0.5
Non-ferrous metals	+ 22.7	- 13.1	- 18.5	- 13.1	- 0.9
Rubber	+ 41.8	- 15.0	- 22.8	- 7.0	- 7.4
Foodstuffs	- 8.2	+ 7.5	- 7.9	- 9.1	- 0.4
Industrial raw materials	+ 4.4	+ 4.1	- 9.1	- 1.2	- 2.3
Total	+ 0.5	+ 5.1	- 8.7	- 3.6	- 1.6
Moody	- 2.3	+ 8.7	- 11.5	- 6.0	+ 1.1
Reuter	- 2.6	+ 3.0	- 15.8	- 15.8	- 2.4
Financial Times	- 1.2	- 2.8	- 9.1	- 12.8	- 0.2

During the early months of 1958 the overall level of raw-material prices regained a certain stability, which was due not to any increase in demand but to a falling-off of supply. Only in the case of some agricultural products, e.g. cereals and meat, was there a slight rise in prices.

The following graph shows the development of the production and prices of certain selected industrial raw materials and foodstuffs since 1950. If trend lines were drawn through the production and price curves relating to the two textile raw materials, wool and cotton, they would run in opposite directions. The increase in production of these two materials was undoubtedly the main cause of the price fall, since demand did not keep up with supply owing to the slow rate of expansion in the textile industries.

In the case of U.S. cotton a kind of dual-price system was in operation in 1957, owing to the disposal of U.S. Government stocks for export at competitive prices. After falling sharply in the middle of 1956, the Liverpool price for American cotton recovered somewhat in the second half of 1956 and rose again towards the end of 1957.

Although production of natural rubber ceased to grow after 1955, the price of this commodity began to decline early in 1956, mainly owing to the fall in the demand from the U.S. motor-car industry and the increasing substitution of synthetic rubber for natural rubber (which was in turn partly due to the sharp price rise in 1955).



* The figures for wheat production do not include that of the U.S.S.R. and China.
 Note: The prices shown are, for copper: domestic, f.o.b. U.S. refinery; for rubber: No. 1 R.S.S., New York; for cotton: Texas M 15/16 inch, c.i.f. Liverpool; for wool: greasy, Sydney auctions; for sugar: b. 96° f.a.s. Cuba (world); for wheat: Canadian, No. 1 Northern, export price, Class II, Winnipeg.

The production and the price of copper both rose from 1950 until 1955. In March 1956 the price in the U.K. market reached the exceptionally high level of £437 per long ton. From then on, owing to the slackening of the boom in the western countries and the slowness of the U.S. Government in resuming its stockpile purchases, a surplus of copper developed. The price fell until, at the end of February 1958, it reached £160½ per long ton (63 per cent. below its peak). As a result, production, which in 1956 still showed an increase over 1955, ceased to grow in 1957.

Among the other non-ferrous metals, the lead and zinc markets developed along almost identical lines as regards both production and prices. Production increased steadily, while prices reached a first post-war peak in 1951 and a first low in 1953, recovered in 1956 and then began a steady decline which has continued up to the present — this last development being partly due to the impending withdrawal of the U.S. Government as a buyer from the lead and zinc markets, which was officially announced in March 1958 for the end of the fiscal year in June but had been anticipated since early in 1957. The price of lead fell from an average of 16.4 cents per lb. in January 1956 (its last peak) to 11.5 cents in mid-May 1958; the price of zinc fell from 13.5 cents at the beginning of May to 10 cents in July 1957 and has since remained at that level.

The production and the price of aluminium, both of which are controlled by a few major producers, have been rising slowly but steadily during the past few years. At the end of March 1958, however, for the first time since 1947, reductions in aluminium prices were announced on both sides of the Atlantic: the U.S. price was lowered to 24 cents per lb., compared with 26 cents previously, and the U.K. price from £197 to £180 per long ton. The cut was necessitated by a decline in demand, resulting from the fall in the price of copper (a substitute for aluminium), the U.S. recession and the discontinuance of strategic stockpiling in the United States. On top of these developments, the U.S.S.R. began to export some aluminium to western Europe at prices lower than those charged by the leading western producers.

As for nickel, its price — which, like that of aluminium, is “administered” — has not so far been reduced. In March 1958, however, the International Nickel Company of Canada, which controls about two-thirds of the world’s nickel production, announced that it intended immediately to reduce its nickel output by roughly 10 per cent. Here, too, over-production has developed, owing to the cessation of U.S. stockpile purchases and the contraction in current consumption due to the slackening of the rate of economic activity, especially in the United States (by far the most important nickel-using country). At the end of April 1958 unsold nickel stocks in Canada and the United States alone amounted to no less than 65,300 metric tons, i.e. nearly one-fourth of world production or more than half of total North American consumption of nickel in 1957.

The price of tin fell from November 1956 onwards, declining from £862 12s. per long ton in that month to £730 in October 1957. The latter

price is the minimum support price under the International Tin Agreement and was only maintained by means of large purchases on the part of the pool. Production of tin fell in 1957; nevertheless, the necessity for intervention by the pool is a clear indication that in the case of this metal, too, the market is faced with over-production.

The international oil market also underwent changes in 1957 and the early part of 1958. During the Suez crisis production in the United States and Venezuela had been greatly stepped up and towards the end of 1957 oil stocks in the United States had reached a very high level, in spite of

World production of crude petroleum.

Areas	1938	1951	1955	1956	1957
	In millions of metric tons				
American continent					
United States	164	304	335	353	352
Venezuela	28	91	112	129	146
Others	17	32	48	55	59
Total	209	427	495	537	557
Europe, western	1	5	9	10	12
Arabian countries	16	97	162	173	177
Other western countries	10	14	19	20	22
Total for western countries	236	543	665	740	768
Eastern countries	39	50	85	98	113
Grand total*	282	608	788	856	899

* Including shale oil and natural gasoline.

the fact that oil imports into the United States had been restricted on a voluntary basis since the autumn. With European restocking demand for the winter of 1957-58 below normal and U.S. imports of oil declining, the international oil market became increasingly over-supplied as production in the Middle East recovered after the Suez crisis. In spite of the development of large surpluses, international oil prices have been prevented from falling by the leading producing companies. U.S. crude-oil prices, which had been raised in January 1957 by between 25 and 35 cents per barrel, were kept at this level, whereas the prices of heavy Venezuelan crude oils were reduced in February 1958 by between 5 and 15 cents per barrel. In response to the rise in the U.S. price in January 1957, the oil-producers in the Middle East also increased their prices, though less than the Americans did. Owing, however, to the sharp fall in freight rates, this price increase did not lead to a corresponding rise in oil prices at European ports.

Since the second half of 1957 the situation in the coal industry in western Europe has been completely reversed, and the countries now face the prospect of an embarrassing surplus instead of an acute scarcity.

At the end of March 1958 pithead coal stocks in the European Coal and Steel Community countries amounted to 12.4 million tons — which is more than double the figure twelve months earlier. As a result, coal prices in Belgium were reduced early in April 1958. In Germany industrial coal stocks totalled 15.3 million tons at the end of April 1958. Nevertheless, domestic coal prices have not yet been lowered after the rise in October 1957; and owing to the sharp fall in freight rates U.S. coal is now cheaper than domestic coal. Stocks are at present larger than at any time since the war. Outside the Community, Poland reduced export coal prices — to \$14.2 per ton, compared with \$21 a year before. The situation in the United Kingdom is typical of the development of an increasing coal surplus. Whereas in 1956 production of coal in that country fell short of requirements by 0.3 million tons, it is estimated that in 1957, despite an increase in production of only 1.6 million tons, the surplus of production over consumption was 5.4 million tons. British coal stocks, which amounted at the end of 1956 to 21 million tons, had risen by the end of 1957 to 27.4 million tons — the largest volume since before the war.

World production of hard coal and crude steel.

Countries and groups of countries	Coal			Steel		
	1955	1956	1957	1955	1956	1957
In millions of metric tons						
Coal and Steel Community	246	249	248	52.6	56.8	59.8
United Kingdom	225	225	227	20.1	21.0	22.1
Other western European countries . .	18	19	20	7.0	7.5	8.1
Total for western Europe	489	494	495	79.7	85.3	90.0
Eastern Europe	123	125	125	13.9	15.2	16.2
U.S.S.R.	276	304	325	45.3	48.6	51.0
United States	442	478	465	106.2	104.5	102.5
All other countries*	270	279	300	24.9	29.4	32.3
World total	1,600	1,680	1,710	270	283	292

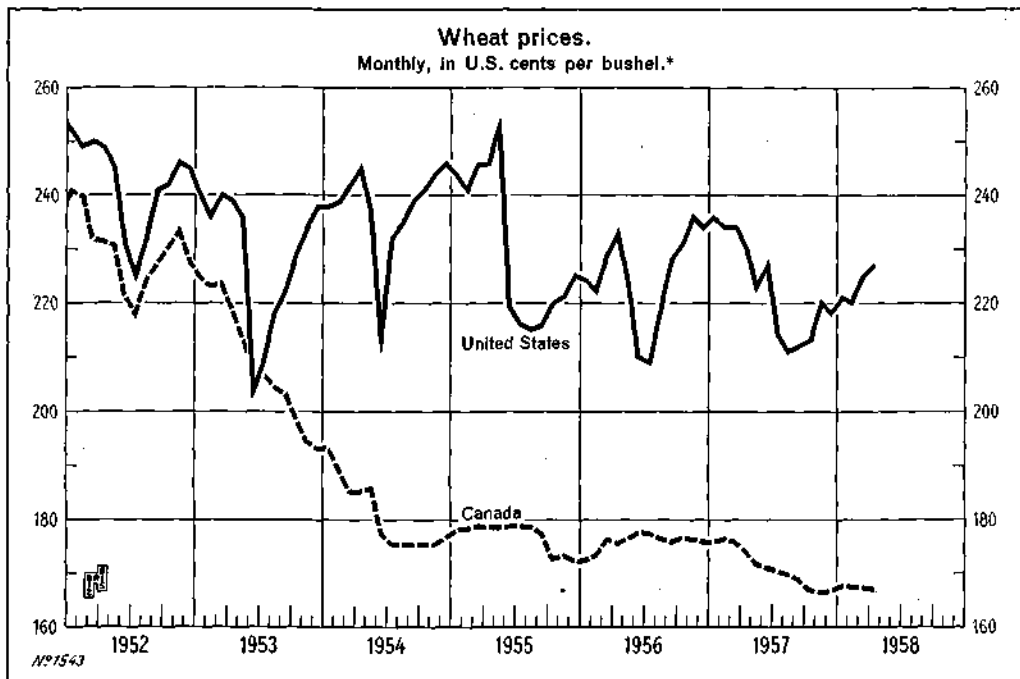
* The main countries included under this heading are Australia, Canada, China, India, Japan and South Africa.

A similar development is observable in the field of steel production and of steel prices. Steel output in the United States is at present below 50 per cent. of rated capacity. Steel production in western Europe is still being maintained at a relatively high level. However, in the United Kingdom and Belgium the prices of many steel products have been cut. Although on an average the cuts in the United Kingdom have up to now amounted to only about 1½ per cent., they are significant in that they represent the first official reduction in British steel prices since January 1939. In western Germany it is estimated that about 15 to 20 per cent. of German steel capacity is idle.

The Export Convention for Steel in Brussels has adapted its policy to the new situation by announcing, in April 1958, large cuts in the export prices of steel products to non-Convention countries. The extent of the cuts varied according to the different types and qualities of steel. The heaviest cut, typically enough, was in the price for ships' steel-plate, which was reduced by more than 10 per cent., i.e. from \$155 to \$135 per ton, f.o.b. Antwerp. It is interesting that some of these prices are now below those prevailing on the domestic markets. On the other hand, the French steel industry is still going strong. As recently as April 1958 a new record level of steel production was reached, that month's production having been no less than 14.8 per cent. higher than that of April 1957. For the first four months of 1958, compared with the corresponding period of the preceding year, the rate of increase of steel production in France works out at 10 per cent. and that of pig-iron production at 7 per cent.

Summarising the situation in the raw-material markets, it can be said that in most cases over-production in relation to demand, resulting in a decline in prices, has been the characteristic feature in the last year or two and that in a number of markets (such as those for cotton, wool, tin and zinc) supply has tended to outstrip demand ever since 1950.

Among foodstuffs, the production of wheat has shown a rising trend over the last decade, with some deviations from this trend, however, in certain years (owing to weather conditions). On the other hand, the Canadian export price of wheat (which may be taken as the nearest approximation



* Cash prices at Kansas City (U.S.A.) for No. 2 Hard Winter and export prices at Winnipeg (Canada) for Class II No. 1 Northern.

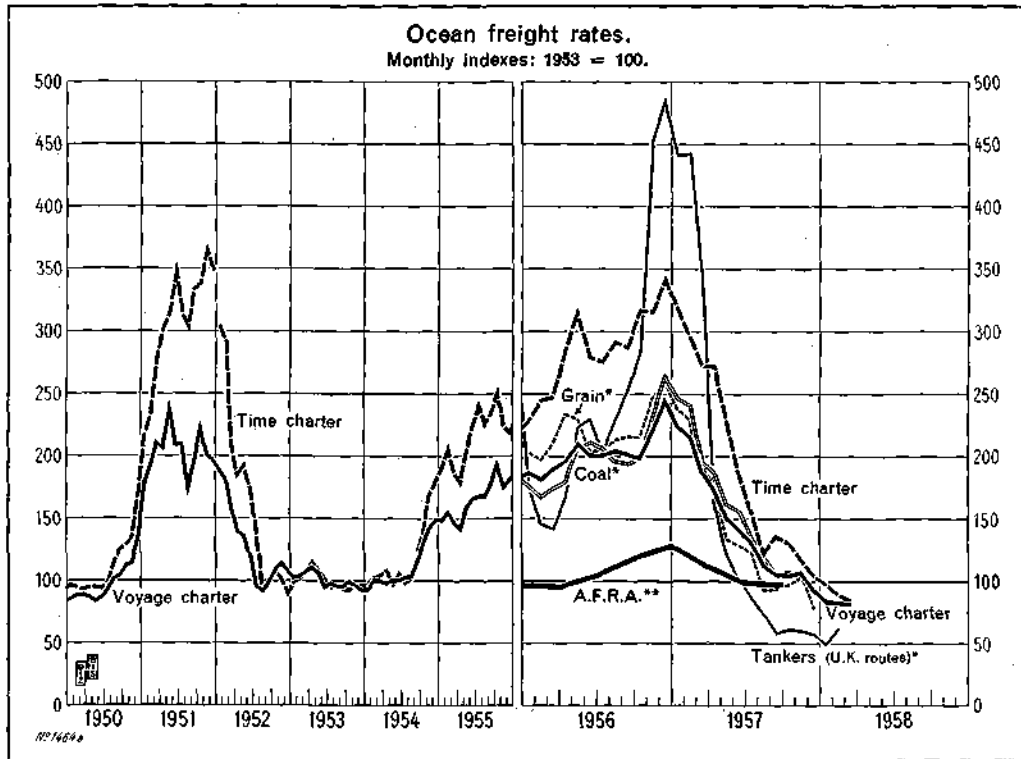
to a world-market price), after declining sharply from the end of 1951 to the middle of 1954, remained relatively stable up to the beginning of 1957, when a new downward movement set in. Between January 1957 and January 1958 the Canadian export price for wheat fell by nearly 5 per cent. The U.S. wheat price, which, owing to the U.S. support policy, cannot fall below a certain (changing) level, did not move in line with the Canadian export price. Nevertheless it, too, was lower at the end of 1957 and the beginning of 1958 than it had been a year before.

The price of sugar had kept more or less steady from 1953 until the end of 1956, while production had continued to increase at a rapid rate. Between November 1956 and April 1957, however, the price doubled (rising from 3.2 to 6.7 cents per lb.). The sharpness of the increase and the subsequent quick relapse to the November 1956 level is clear proof that this rise and fall in the sugar price was merely a temporary speculative movement.

By the end of February 1957 the price of cocoa was down to a level no less than 70 per cent. below its peak in August 1954 (21.05 cents per lb. as against 72.90 cents). By mid-November 1957, however, it had recovered to 43.98 cents per lb. and in February 1958, just one year after the preceding year's low, a new record of 46.04 cents per lb. was quoted. This doubling of the price of cocoa within the short span of one year was the only case in 1957 of a sharp rise in the price of an internationally traded commodity. The cause of this rise was the initiation, in May 1957, of the Brazilian valorisation plan and the restrictive policy pursued by the West African Cocoa Boards in the autumn of 1957. These measures were, however, made possible by the supply position on the market. The current year's harvest is estimated at 747,000 tons, which represents a fall of 155,000 tons, or 17 per cent., compared with the previous year's figure, and the firmness of present prices is clearly due to a decrease in supplies and not to any increase in demand.

The price of coffee, which was 60.6 cents per lb. in New York in January 1957, had fallen to 54 cents by the end of March 1958, whereas the price of tea fluctuated within rather narrow limits.

Freight rates, also of great importance to the consumers of industrial raw materials and foodstuffs, fell sharply in 1957 after the rise caused by the Suez crisis. It should not be overlooked, however, that some of the very high rates quoted during the Suez episode were much above the average rates charged on the great majority of the maritime traffic carried during that period. Transport costs are more accurately expressed, at least in the case of oil, by a new index which has recently been compiled, the so-called Average Freight Rate Assessment (A.F.R.A.). (This is the weighted average of all current international charter rates — long and short-term time-charter rates as well as spot-charter voyage rates. Tankers owned by oil companies are included in the long-term charter rate.) This index



* Voyage-charter rates. ** Weighted average of time and 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 A.F.R.A. (Average Freight Rate Assessment) index is calculated by the United Nations on the basis of data compiled by the London Tanker Brokers' Panel.

shows, in the case of oil transport, for example, that the freight cost, although it did of course increase during the Suez crisis, rose much less than was thought at first, having in fact gone up by about 25 to 30 per cent. This is a much smaller rise than that shown in the graph for unweighted freight rates. The subsequent fall in freight rates is also found to have been much smaller in extent when considered in terms of A.F.R.A. These rates are now back at a level a few points below the pre-Suez figures. The foregoing considerations do nothing, however, to alter the fact that the shipping situation is now very precarious, and future prospects are certainly not encouraging.

The slowing-down of the rate of increase of industrial production, together with the accumulation of large stocks of oil, coal and metals, coincided in the second half of 1957 with the completion of new shipping tonnage and created a redundancy on the market, both for tankers and for dry cargo, which not only depressed freight rates but also led to the laying-up of ships. In mid-1957 the world merchant fleet amounted to 110.2 million gross tons, having increased by nearly 5 per cent. since mid-1956 — the largest rise in any peace year since 1920. The total tonnage launched in 1957 amounted to 8.5 million gross tons, against 6.7 million during the previous year, and the tonnage under construction increased from quarter to quarter to reach

9.8 million gross tons at the end of December 1957, against 7.9 million a year earlier. It is estimated that at the beginning of 1958 laid-up tonnage represented 3 per cent. of the main European fleets and 4 per cent. of the fleets under flags of convenience. The latter include ships registered in Panama, Honduras, Costa Rica and Liberia in order either to avoid taxation in the owner's country or to take advantage of lower operating costs. The fleets under flags of convenience constituted 15 per cent. of the world's active tonnage in mid-1957, having grown very quickly since the end of the war. As these fleets are more dependent on tramp shipping than those of the traditional seafaring nations, they are more sensitive to fluctuations in the demand for shipping space. By mid-May 1958 total laid-up tonnage was estimated at 7 million gross tons, nearly half of which consisted of tankers.

In connection with the fall in the prices of raw materials and foodstuffs during 1957, the question has often been raised as to how it has affected the gross receipts of the countries producing these commodities. There is no way of calculating these effects accurately, but the following figures may

Estimates of world production of basic commodities.

Commodities	Unit ¹	1937	1946	1950	1954	1955	1956	1957 (pre- liminary)	Per- centage change 1957 over 1937
Aluminium ² . . .	1000 tons	493	774	1,507	2,808	3,104	3,337	3,408	+ 591
Natural gas . . .	billiard m ³	78	136	209	274	294	309	330	+ 323
Man-made fibres . . .	1000 tons	835	806	1,676	2,228	2,539	2,689	2,820	+ 238
Hydro-electricity . . .	billiard kWh	162	252	368	438	466	500	540	+ 233
Crude oils	million tons	287	398	537	703	788	856	899	+ 213
Cement	million tons	82	75	135	194	219	235	244	+ 198
Rubber, natural	1000 tons	1,229	851	1,890	1,836	1,948	1,918	1,920	+ 168
Rubber, synthetic	1000 tons	63	940	785	1,111	1,525	1,702	1,800	
Nickel ³	1000 tons	119	118	148	221	249	265	286	+ 140
Brown coal	million tons	252	276	382	496	538	566	600	+ 138
Sisal	1000 tons	230 ⁴	208	310	420	473	507	510	+ 122
Steel	million tons	136	112	169	223	270	283	292	+ 115
Tungsten (60%WO ₃)	1000 tons	39	19	39	70	74	74	75	+ 92
Soya beans	million tons	13	15	18	20	21	23	24	+ 85
Zinc ²	1000 tons	1,636	1,405	2,060	2,512	2,776	2,923	3,007	+ 84
Manganese ore	million tons	6	5	8	11	11	11	11	+ 83
Copper ⁵	1000 tons	2,534	2,089	3,175	3,488	3,843	4,103	4,115	+ 62
Sugar	million tons	30	26	36	41	40	44	47	+ 57
Mercury	tons	4,590	5,260	4,937	6,015	6,163	6,521	6,600	+ 44
Lead ²	1000 tons	1,692	1,154	1,836	2,149	2,161	2,304	2,390	+ 41
Wool, greasy	1000 tons	1,719	1,716	1,842	2,089	2,180	2,281	2,318	+ 35
Maize	million tons	126	134	131	143	161	165	168	+ 33
Coal	million tons	1,282	1,220	1,450	1,475	1,600	1,690	1,710	+ 33
Oilseed crops ⁶	million tons	12 ⁷	11 ⁸	13	14	14	15	16	+ 31
Animal fats ⁶	million tons	9 ⁷	8 ⁸	9	11	11	11	12	+ 31
Rice, rough	million tons	150	142	154	162	194	199	197	+ 31
Jute	1000 tons	1,581	1,045	1,735	1,546	2,034	2,072	2,049	+ 30
Wheat	million tons	172	155	175	196	207	220	215	+ 25
Cocoa	1000 tons	724	640	755	771	801	837	902	+ 25
Coffee, green	1000 tons	2,460	2,090	2,290	2,531	3,025	2,726	3,079	+ 25
Cotton	1000 tons	8,318	4,683	6,531	8,697	9,268	8,952	8,515	+ 2
Tin ²	1000 tons	205	107	187	200	194	195	188	- 8

¹ Tons are metric tons. ² Smelter production. ³ Metal content of mine production. ⁴ 1934-38 average.
⁵ Refinery production. ⁶ Oil equivalent. ⁷ 1938-39 or 1939. ⁸ 1945-49 average.

serve to give a rough idea of their order of magnitude. The total value of world production of the commodities shown in the above list (excluding vegetable and animal fats), calculated at current prices, was, very roughly, \$150 milliard in 1955, \$160 milliard in 1956, and \$170 milliard in 1957. Thus the value of the output of these commodities increased by about \$10 milliard, or 7 and 6 per cent. respectively, during the last two years. If nine commodities which are mainly produced in industrialised countries are excluded — namely, hard and brown coal, hydro-electricity, steel, man-made fibres, cement, synthetic rubber, natural gas and aluminium — then the value of the output of the remaining twenty-one commodities is found to have increased from \$89 milliard in 1955 to \$91 and 94 milliard respectively in 1956 and 1957, whereas the value of the output of the nine commodities excluded in the same three years was \$61, 69 and 76 milliard respectively. Thus, while the value of the commodities mainly produced by under-developed countries has undergone little change, the value of the output of the nine raw materials produced by industrialised countries has risen by no less than one-quarter. Since 1937, the value, in terms of current prices, of the output of all the commodities under consideration has nearly quadrupled. Over the same period the volume of output, calculated on the basis of constant (1952) prices, has grown by about 65 per cent. This overall increase is the result of a growth in volume of 45 per cent. (there was in fact hardly any increase in 1957) in the output of the twenty-one commodities mainly produced by under-developed countries and of a much larger rise (of 115 per cent.) in the output of the nine commodities from industrialised countries.

Value of production of basic commodities in 1957.

Items	On the basis of prices in		Gain or loss
	December 1956	December 1957	
	in milliards of U.S. dollars		
21 commodities mainly produced by under-developed countries . .	94	91	- 3
9 commodities produced by industrialised countries . . .	74	77	+ 3
30 commodities: world total	168	168	± 0

The value figures given so far are based on yearly price averages and it is due to this fact that the value of the output of the first group of commodities still showed a small rise in 1957 compared with 1956. The fall in the prices of these commodities

took place predominantly in the second half of 1957. In order to show the effects of the price fall on the value of output, therefore, the latter must be recalculated on the basis of end-of-year prices. The result of this calculation is shown in the above table.

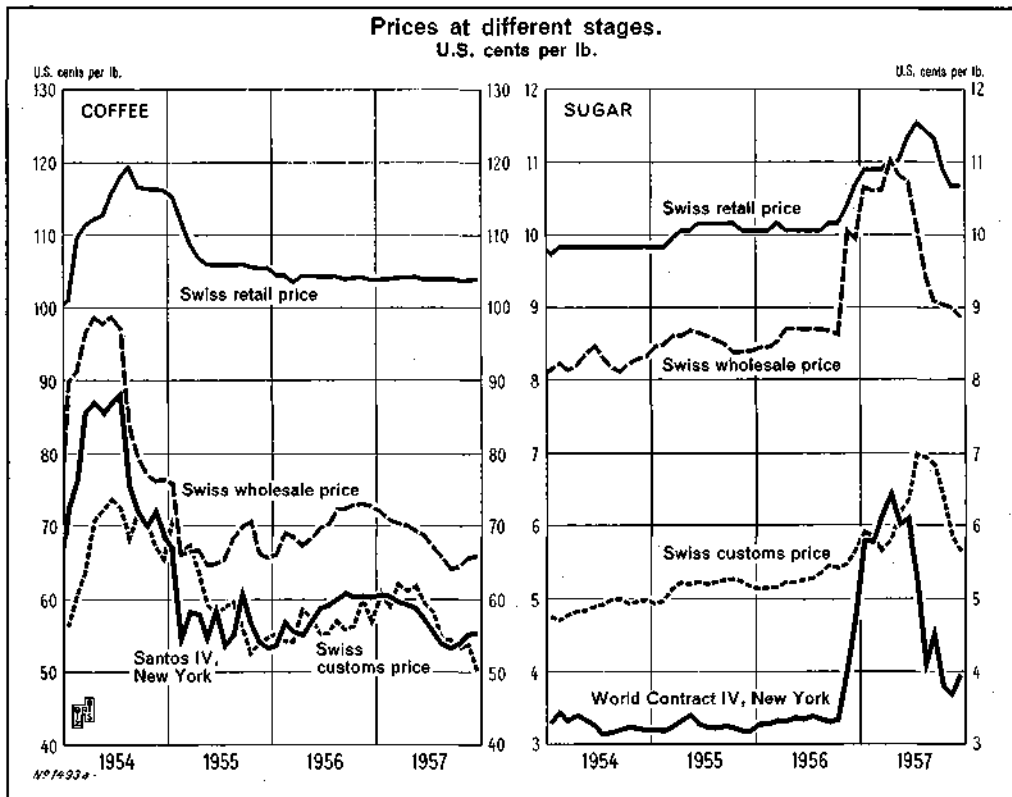
In terms of end-of-1957 prices, the value of output in 1957 shows an increase of \$3 milliard compared with the figure in terms of end-of-1956 prices in the case of raw materials produced in industrialised countries, whereas there is a fall of the same amount in the case of commodities mainly produced in under-developed countries.

* * *

In contrast to the downward trend of the world-market prices of important raw materials and foodstuffs, domestic consumer prices continued to rise during 1957 in all industrial countries. Four stages can be distinguished in the price structure of internationally traded commodities. The basis of the structure is formed by the world-market price itself; then comes, at a higher level, what may be called the customs price, i.e. the c.i.f. import price. The third stage is the domestic wholesale price, which is again higher than the customs price; the fourth, the retail price, is the highest of them all. These four stages may be illustrated by the following figures showing the average prices of sugar and coffee in Switzerland in 1957 (in U.S. cents per lb.).

Price stages	Sugar	Coffee
World-market prices	5.13	56.9
Swiss customs prices	6.20	57.4
Swiss wholesale prices	9.99	67.8
Swiss retail prices	11.05	103.8

In the case of these two commodities, the ratio between the world-market price and the retail price was about 1:2, but it varies greatly between different dates — owing to the “stickiness” of retail prices — and between different products. The speed at which and the extent to which the prices at the higher levels follow the movement of the world-market prices are shown



for the same two commodities in the preceding graph. The wholesale prices follow the world-market prices without any time-lag whatever, although the absolute increases and decreases are smaller. The customs prices — in between the two price stages just mentioned — follow the world-market prices with a time-lag of about three months (whereas for wool, cocoa, lead and other commodities the time-lag appears to be two months). The retail prices follow, if at all, with a still greater time-lag and to a much smaller extent. The fall in the world-market price of coffee in 1957 had by the end of the year not yet been reflected in a fall in the retail price, whereas the retail price of sugar fell three months after the decline in the world-market price set in. But the fall in the retail price, compared with its peak, amounted to less than 1 U.S. cent, or $7\frac{1}{2}$ per cent., whereas the world-market price had fallen by almost $2\frac{1}{2}$ U.S. cents, or 39 per cent.

In view of the quick reaction of the wholesale price to changes in world-market prices, it is not surprising that the wholesale-price index actually fell in 1957 in a number of countries where it is particularly strongly affected by the movement of international commodity prices. This was so in the case of Austria, Denmark, Italy, the Netherlands, Sweden and Switzerland and of some non-European countries such as Canada, Japan and Australia. And in the first quarter of 1958 a number of other countries, notably the United Kingdom and Belgium, joined this group.

The prices of domestic raw materials, on the other hand, rose in 1957, so that in countries such as the United Kingdom, France and Germany, where these prices are important items in the wholesale-price index, they helped to keep the index up. Thus in Germany the prices of basic raw materials increased by 1.5 per cent. This change was in fact the net result of a rise of 2.9 per cent. in the prices of basic materials of domestic origin and a fall of no less than 5.5 per cent. in the prices of imported materials. The prices of imported agricultural commodities declined by as much as 6.8 per cent.

In the United States wholesale prices rose by 1.9 per cent. between December 1956 and December 1957 and by another 1 per cent. in the first quarter of 1958. The increase was mainly attributable to the rise in the prices of farm products, which went up during 1957 by 4.2 per cent., and of some manufactured products, such as machinery, which rose by 4 per cent. There was a fall, on the other hand, in the wholesale prices of textiles, rubber, wood, metals and metal products. Rubber prices as a whole declined by 1.5 per cent., while those for crude rubber fell by as much as 10.2 per cent. The price decline was particularly sharp in the case of metals owing to the drop in non-ferrous metal prices, which went down by no less than 12.7 per cent. With regard to farm products and processed foodstuffs, it is noteworthy that prices for livestock rose by 15.3 per cent., those for meat by 17.2 per cent. and egg prices by nearly 26 per cent. In March 1958 — for the first time during the current recession — declines took place in almost all the major non-agricultural commodity groups.

Consumer and wholesale prices.

Countries	Consumer prices				Wholesale prices			
	Percentage increases during							
	1955	1956	1957	1958 1st quarter	1955	1956	1957	1958 1st quarter
Austria	2.7	2.9	2.3	2.9	- 2.4	7.2	- 1.8	0.1
Belgium	1.6	3.2	2.9	- 0.5	2.7	3.8	0.5	- 2.9
Denmark	7.0	4.3	1.2	0.2	4.0	4.0	- 2.8	0.0
Finland	3.1	16.8	8.5	1.6	1.0	9.1	13.8	0.8
France	1.0	1.2	10.9	5.9	1.8	4.8	13.9	1.2
Germany	1.8	1.8	3.5	0.8	2.6 ¹	3.3 ¹	0.8 ¹	0.8 ¹
Greece	5.9	1.2	3.0	- 0.1	8.1	4.7	- 1.4	- 2.6
Iceland	8.8	6.9	2.7	0.0	.	.	.	.
Ireland	4.0	2.3	6.0	1.4	4.7	0.6	7.9	.
Italy	1.9	2.8	2.2	0.2	1.0	3.0	- 1.3	- 1.1
Netherlands	- 0.0	3.7	11.7	0.0	0.7	5.1	- 0.7	- 0.7
Norway	- 0.7	4.9	2.0	1.3	2.9	5.7	0.0	- 0.9
Portugal	2.5	1.6	1.4	0.7	2.8	4.5	- 2.6	0.0 ²
Spain	4.2	8.4	13.2	0.8 ²	5.0	14.9	13.6	0.3 ²
Sweden	6.2	3.6	4.2	2.0	7.4	2.2	- 0.7	- 0.7
Switzerland	0.4	2.2	2.0	- 0.3	- 0.5	4.5	- 1.2	- 1.5
United Kingdom	5.8	3.1	4.8	0.2	4.9 ³	3.8 ³	3.0 ³	- 0.3 ³
Canada	0.3	3.0	2.2	1.0	2.8	2.9	- 0.9	1.0
United States	0.3	2.9	3.1	1.4	1.6	4.5	1.9	1.0

¹ Producer prices. ² February 1958. ³ Manufactured goods.

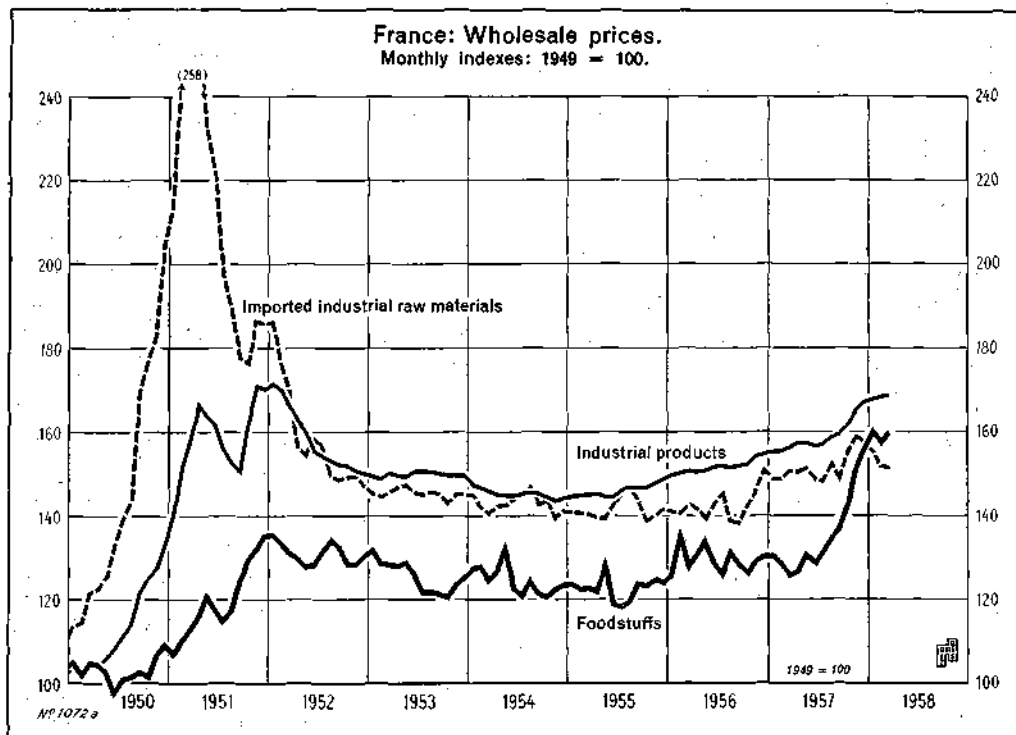
Price developments in the United Kingdom are of particular interest. The British price indexes are subdivided in such a way that a comparison can be made between input and output prices in manufacturing industry. British prices for basic materials fell during 1957 by 10.8 per cent. In contrast to this downward movement, the level of prices for all manufactured goods, i.e. output prices, rose by 3 per cent.

The same tendency towards a widening of the gap between input and output prices during 1957 is observable in individual industries. The price of the materials employed in the mechanical engineering industry rose by 3.1 per cent. On the other hand, the prices of finished products in the iron and steel sector showed an increase of as much as 11.3 per cent. Prices for clothing and shoes increased by 2.7 per cent.; this compares with substantial decreases in the prices of the basic textile materials and with a very slight increase — of 1.1 per cent. — in the price of hides. It appears, therefore, that as a general rule the decline in raw-material prices was more than offset by an increase in manufacturing or processing costs — a phenomenon which was also observable, though to a less pronounced degree, in Germany.

Consumer prices continued to rise during 1957 in all the countries listed in the above table, but this trend was weakened in the early months of 1958, and in some countries the index even declined. In 1957 consumer prices went up least in Denmark, where there had been a rather sharp rise in the two preceding years. Portugal, Norway, Switzerland and Italy follow,

with modest rises in the index. At the other end of the scale are four countries, namely Finland, France, the Netherlands and Spain — in that order — in which the price increases ranged from 8.5 to 13.2 per cent.

The sharp rise in the cost-of-living index in France and the Netherlands was due to entirely different reasons in the two countries. In the Netherlands $4\frac{1}{2}$ per cent. of the rise was purely nominal, having been caused by the introduction of old age insurance (contributions to which are included in the Dutch cost-of-living index) and another $4\frac{1}{2}$ per cent. was due to the increase in publicly controlled prices such as rents and certain agricultural prices. In France, on the other hand, the price rise — which occurred at both the consumer and wholesale levels — was caused by persistent inflationary pressure, the effect of which had previously been disguised by subsidies and administrative measures which had made the price structure increasingly artificial. This price rise can be attributed neither to the consequences of the Suez crisis — which were only temporary — nor to the effect of the de facto devaluation in 1957, which has been cancelled out by the fall in world-market prices, so that in March 1958 the index of imported raw-material prices stood at practically the same level as in March 1957, in spite of a difference of 20 per cent. in the exchange rate. What happened in 1957–58 is in fact to a certain extent a repetition of the events which followed the Korea crisis, but on a much larger scale. After that crisis, in 1951, French prices came down together with the prices of imported raw materials, but the prices of industrial products stayed at a higher level in relation to those of raw materials than had been the case before the



Rise in the components of the consumer-price index.

Countries		Total index	Food	Rent	Light and fuel	Clothing
in percentages ¹						
France	1956 . . .	1.2	0.2	10.1	- 4.3	1.1
	1957 . . .	10.9	11.1	8.2	19.7	6.3
Germany	1956 . . .	1.8	1.7	1.7	3.1	1.0
	1957 . . .	3.5	4.2	0.8	3.0	5.1
Italy	1956 . . .	2.8	2.8	9.9	1.0	1.0
	1957 . . .	2.2	1.8	11.3	0.0	2.0
Netherlands	1956 . . .	3.7 ²	6.5	0.0	7.3	2.4
	1957 . . .	11.7 ²	6.1	22.0	5.3	1.2
Sweden	1956 . . .	3.6	1.3	0.7	18.7	0.0
	1957 . . .	4.2	3.2	7.4	1.9	2.5
Switzerland	1956 . . .	2.2	2.8	2.5	5.9	- 0.4
	1957 . . .	2.0	1.0	2.4	0.4	4.0
United Kingdom	1956 . . .	3.1	0.9	5.9	6.0	1.6
	1957 . . .	4.6	3.6	11.5	9.2	1.8
Canada	1956 . . .	3.0	4.5	1.7	2.8 ³	0.1
	1957 . . .	2.2	1.1	2.0	1.8 ²	1.2
United States	1956 . . .	2.9	3.1	2.4	6.3 ³	2.2
	1957 . . .	3.1	2.8	1.9	1.6 ³	0.6

¹ From December to December. ² Excluding taxes. ³ Fuel.

Korea boom. In 1957, after the Suez crisis, and early in 1958 the French domestic price level diverged from the international price level still more than after the Korean episode: the prices of industrial and agricultural products rose in contrast to the trend of the prices of imported raw materials, whereas after 1951 at least the direction of the price movement of all three categories of products was the same. The official policy of keeping up the prices of products which would otherwise have a tendency to fall and the actual suppression of foreign competition caused by the scarcity of foreign exchange have, of course, played an important rôle in bringing about the autonomous rise in French prices.

In some countries — including Germany, Sweden and the United Kingdom — the rise in the consumer-price index was largely attributable to the increase in the prices of foodstuffs. The sharp rise in food prices is to a great extent the result of the widespread removal of food subsidies — a policy which is being increasingly adopted in many countries with the object not only of reducing the excessive burdens on the budget but also of restoring realistic prices. In Germany, for example, the price of bread has been raised since the beginning of 1958 by Pf. 6 per kilo, i.e. by 7.5 per cent. This increase was due to the virtual abolition of cereal subsidies (the only one now remaining being that on cereal freights). Farm subsidies have also been reduced in Norway and the United Kingdom. The progressive decontrol of rents — another important item in the consumer-price index — also contributed in many countries to the increase

in the cost of living in 1957. Rents rose by about 8 per cent. in France, by about 11 per cent. in Italy and the United Kingdom and by over 20 per cent. in the Netherlands. In Sweden they went up by 7.4 per cent., compared with an aggregate rise in the consumer-price index of 4.2 per cent. Mainly owing to the Suez crisis, the cost of lighting and fuel increased considerably in some countries. Both in Germany and in Switzerland clothing prices rose more than the average price level, and in France, too, they increased appreciably.

Generally speaking, it may be said that wholesale prices have begun to fall in many countries, while in others the rate of increase has slowed down, the most important exception being France. Consumer prices, however, continued to rise everywhere throughout 1957. But the reductions in wholesale prices began to affect the consumer-price indexes in a number of countries in the first quarter of 1958, and it may therefore be expected that they will soon stop rising or even come down in other countries as well.

The slowing-down of the rise in economic activity, or in some cases the actual decline in activity, which took place in 1957 was accompanied by — and was very likely the main cause of — a slowing-down of wage increases which was observable in all the countries listed in the table, with the exception of France, Germany and the Netherlands, where wages rose faster than in the previous year. Nevertheless, according to all available evidence, the rise in money wages has in most countries exceeded the increase in productivity per man-hour and has thus prevented the prices of manufactured goods from falling in response to the decline in the prices of basic materials.

As the cost of living rose during 1957, real wages did not increase as much as nominal wages; and even in those countries where nominal wages

Hourly wage rates.

Countries	Nominal wages				Real wages	
	Percentage changes during				1957	1955-57
	1955	1956	1957	1955-57		
Austria	+ 4.5	+ 4.9	+ 0.6	+ 10.2	- 1.7	+ 1.9
Belgium	+ 3.3	+ 11.1	+ 8.0	+ 23.8	+ 5.0	+ 14.7
Denmark	+ 4.9	+ 8.8	+ 3.4	+ 17.9	+ 2.2	+ 4.4
Finland	+ 5.3	+ 13.3	+ 3.1	+ 23.4	- 5.0	- 5.6
France	+ 9.2	+ 6.4	+ 11.6	+ 29.7	+ 0.6	+ 15.2
Germany	+ 7.6	+ 8.0	+ 9.0	+ 26.7	+ 5.3	+ 18.1
Italy	+ 1.8	+ 7.4	+ 2.5	+ 12.1	- 1.2	+ 5.1
Netherlands	+ 0.7	+ 5.3	+ 11.3	+ 17.9	- 0.4	+ 1.7
Norway	+ 3.9	+ 11.5	+ 2.8	+ 19.1	+ 0.8	+ 12.0
Sweden	+ 8.6	+ 9.2	+ 5.2	+ 24.8	+ 1.0	+ 8.8
Switzerland	+ 1.5	+ 3.7	+ 2.7	+ 8.0	+ 0.7	+ 3.2
United Kingdom	+ 6.9	+ 7.1	+ 5.7	+ 21.5	+ 1.1	+ 6.5
Canada	+ 3.5	+ 6.4	+ 5.1	+ 15.8	+ 2.8	+ 9.7
United States	+ 5.5	+ 6.2	+ 2.4	+ 14.8	- 0.7	+ 7.9

increased faster than in 1956 real wages rose less than in that year. Furthermore, there were no fewer than five countries — Austria, Finland, Italy, the Netherlands and the United States — in which real wages actually declined somewhat during 1957. A more balanced picture is obtained by examining developments during the period since 1955. During these three years both nominal and real wages increased everywhere (except for real wages in Finland). The increase in nominal wages in the three-year period varied between 8 per cent. (Switzerland) and 30 per cent. (France) and that in real wages between 1.7 per cent. (Netherlands) and 18.1 per cent. (Germany). The main factor accounting for the differences in the rise in real wages in the last three years has undoubtedly been the different degree to which productivity has increased in the various countries, although this correlation has often been temporarily upset by special circumstances. Thus in the Netherlands the smallness of the rise in real wages in the three-year period cannot be explained without reference to the particularly large wage increase which took place in the preceding year (1954). In Switzerland, on the other hand, the considerable influx of temporary foreign labour may have been largely responsible for the particularly low rate of increase of real wages.

Elsewhere in this Report (Chapter I) it has been shown that in a fairly large number of countries industrial production in the last quarter of 1957 and the first quarter of 1958 was below the level which it had reached a year before, while in most others the rate of increase had slowed down considerably (see table on page 13 and graph on page 14).

In periods of declining economic activity the output of durable goods normally falls earlier and to a greater extent than the output of consumer goods. This experience was repeated in the United States and Canada, where production of durable goods started to fall at the beginning of 1957, whereas the decline in production of consumer goods did not set in until the fourth quarter of the year; and in the first quarter of 1958 the output of durable goods in the United States was 15.7 per cent. lower than it had been a year before, whereas the output of consumer goods had fallen by only 3.6 per cent. The corresponding figures for Canada (for the first two months of 1958 compared with the same months of 1957) are 10.5 per cent. and 5.8 per cent. respectively.

Some European countries publish separate statistics for the production of capital goods and consumer goods. In the countries where there was an absolute decline in industrial production, the output of capital goods also fell earlier and to a greater extent than that of consumer goods (Belgium, Denmark). In those countries, however, in which industrial production continued to increase, the reverse was the case, the percentage increase in the production of capital goods in the last quarter of 1957 and the first quarter of 1958 having been greater than that in the production of consumer goods. Thus, in the first quarter of 1958, the output of capital goods in Germany was 5.7 per cent. above the level reached a year before, while the rise amounted to only 0.4 per cent. in the case of consumer goods.

The relatively high level of activity was obviously still strongly supported by the high rate of investment and lively foreign demand for capital goods.

In 1957 and the early part of 1958 the inflationary pressure abated considerably in most of the industrialised countries of the West (the main exception being France). But this slowing-down, or even halting, of the rate of price inflation — satisfactory though it may seem — is by no means sufficient. If, in times of recession, the best that can be achieved is a halting of the rise in the price level, the long-term prospects for price stability are poor indeed. It is therefore imperative that prices should actually fall in periods of recession. And if such price falls are not to be accompanied by a large volume of unemployment, labour must be willing temporarily to do without any substantial wage increases and business must be prepared to reduce profits per unit of output. Only under such conditions can anti-recession measures, designed to increase aggregate demand, be adopted without there being a danger of their causing a new inflationary spurt. As Herr Blessing, President of the Deutsche Bundesbank, put it in a speech in Berlin on 30th April:

“It looks as if the business situation has now reached a point at which fairly widespread price cuts are becoming a possibility. Business men would be well advised to accelerate the reversal in the price trend by reducing prices, and not production, when demand is declining, in order to stimulate sales, and workers should support the change in the price trend by keeping their wage demands within reasonable limits. Such a course, if persevered in, would lead to a boom based on quantitative expansion, which is exactly what we need. If, on the other hand, prices are kept up and wages further increased, we run the risk of aggravating and accelerating the recession. This is not the time for keeping prices high and indulging in further rounds of wage increases; it is the time for discipline in the field of wages and prices. We are faced with a choice between the road leading to a quantity boom and the road leading to a further decline in economic activity. I hope we shall make the right choice.”

A rapid downward adjustment of prices is the best way to correct the disequilibrium resulting from the prolongation of a boom and creates a solid starting-point for fresh expansion. If the price rise is only halted in a recession and starts again in the next period of expansion, the resultant continual depreciation of the monetary unit will necessarily slow down the growth of savings and will thus be incompatible with a high rate of economic progress.

V. World Trade and Payments.

World trade continued to increase in 1957, though at a somewhat slower pace than in the two previous years. Whereas in both 1955 and 1956 the trade turnover (imports c.i.f. plus exports f.o.b.) had risen by over 10 per cent., in 1957 it increased by 8 per cent. — a rate of expansion roughly in line with that prevailing over a longer span of years, which works out at 8.6 per cent. since 1950 and at 7.2 per cent. since 1937. Over the last twenty years, the expansion in the trade of continental western Europe has only slightly exceeded that in the trade of the rest of the world, the fast advance of the last decade having done little more than make good the ground lost during the war years.

In 1957, despite the fall in the prices of raw materials and foodstuffs, the unit value of exports rose by 3 per cent. owing to an increase in the prices of manufactured goods. In real terms, world trade (as measured by the volume of world exports) rose by 5 per cent. in 1957, against 9 per cent. in the two preceding years. In 1956 and 1957 the rate of increase of the volume of world trade was twice as high as that of industrial output.

Turnover of world trade.

Areas	World trade turnover				Annual rates of increase		
	1937	1950	1956	1957	1937-57	1950-57	1956-57
	in milliards of U.S. dollars				in percentages		
United Kingdom	8.0	13.6	20.2	21.1	5.0	6.5	4.5
Rest of the sterling area . .	7.4	18.3	25.9	27.5	6.8	6.0	6.2
Total for the sterling area	15.4	31.9	46.1	48.6	5.9	6.2	5.4
Continental O.E.E.C. countries	15.9	29.7	58.1	64.4	7.3	11.7	10.8
United States and Canada . .	9.0	26.2	44.4	46.8	8.6	8.7	5.4
Latin America	4.0	12.4	16.6	17.6	7.7	5.1	6.0
Other countries	7.1	15.8	26.5	29.7	7.4	9.4	12.1
World trade turnover . .	51.4	116.0	191.7	207.1	7.2	8.6	8.0

Primary products and manufactured goods now each account for roughly one-half of the value of world exports, whereas before the war the relationship was 60:40 per cent. In terms of volume, the shift towards trade in manufactured goods has been even greater; it has not been fully reflected in value figures owing to the relative advance in the prices of raw materials and foodstuffs since 1937-38, years in which they were particularly low.

The slower rate of expansion of trade in primary products is reflected in the growing importance of industrial areas in world trade (see table on page 120).

Volume of exports of different areas.

Year	European sterling area	Overseas sterling area	Continental western Europe	United States and Canada	Latin America	World
Index: 1938 = 100						
1938	71	77	65	43	85	70
1950	104	89	79	75	95	85
1954	105	103	114	97	98	105
1955	111	113	129	100	107	114
1956	118	119	138	116	116	124
1957	121	122 *	148	121	115 *	130
Index: 1938 = 100						
1957	170	156 *	228	281	135 *	186

* January to September.

In 1957, when exports from Europe expanded, in terms of volume, by 7 per cent., those of North America and of the sterling area rose by only 4 and 3 per cent. respectively and those of Latin America did not increase at all. In relation to 1938, the volume of the foreign trade of the United States and Canada has increased by 181 per cent. and that of continental Europe by 128 per cent. The corresponding increases in the case of the overseas sterling area and Latin America are 58 per cent. and 35 per cent. The higher level of the volume index for the overseas sterling area is due essentially to the exports of the petroleum-producing countries of the Middle East.

The flow of trade is greatest between industrial areas, and the proportion of such trade to world exports increased from 36 per cent. in 1938 to 40 per cent. in 1957. In terms of current values, trade among industrial areas has increased fivefold since before the war, but the rate of increase has not been the same over the whole period and for all areas. From 1938 to 1950 trade between the United States and Canada expanded at a much faster pace than did any other current of trade, owing to the rapid growth

Principal currents of world trade.

Exports (f.o.b.)	1938	1950	1956	1957*	1938	1950	1956	1957*
	in milliards of U.S. dollars				as percentages of total			
From industrial areas to industrial areas	8.1	19.5	37.3	40.9	36	34	40.5	40
From industrial areas to non-industrial areas	5.8	13.7	23.4	28.2	26	24	25	27.5
From non-industrial areas to industrial areas	6.3	16.5	22.2	23.0	28	29	24	22.5
From non-industrial areas to non-industrial areas	2.2	7.2	9.8	10.5	10	13	10.5	10
Total world exports	22.4	56.9	92.7	102.6	100	100	100	100

* First half-year at annual rate.

Note: The industrial areas comprise Canada and the United States, the O.E.C. countries and Japan.

Currents of trade between industrial areas.

Exports (f.o.b.)	1938	1950	1956	1957*	1938	1950	1956	1957*
	in milliards of U.S. dollars				as percentages of total			
Within western Europe . . .	4.6	9.8	18.8	20.3	57	50	50	50
Within North America . . .	0.7	3.9	6.9	7.1	9	20	19	17
Between western Europe and North America	2.2	8.0	9.5	10.6	27	26	25	26
Remainder of trade between industrial areas	0.6	0.8	2.1	2.9	7	4	6	7
Total for industrial areas	8.1	19.5	37.3	40.9	100	100	100	100

* First half-year at annual rate.

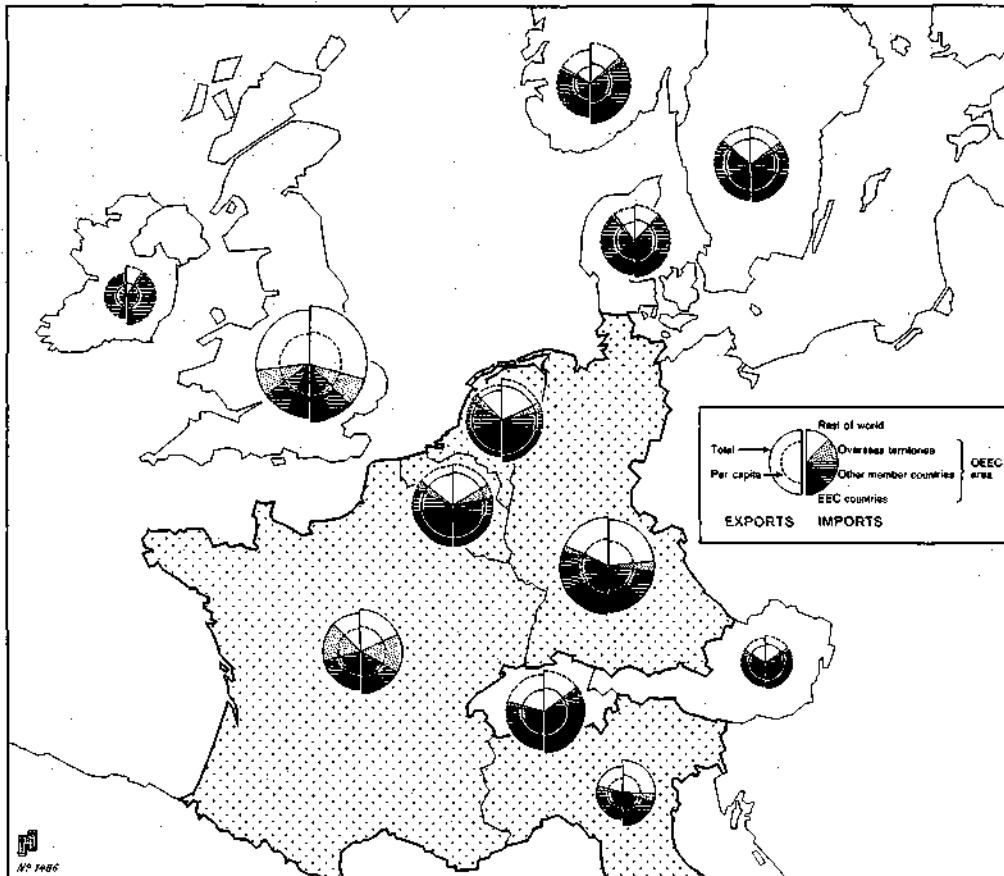
in production in both countries, the close links established between the two economies during the war and the lagging-behind of output in Europe. The result of this relative advance was a decline in the share of intra-European trade from 57 per cent. of total trade between industrial areas in 1938 to 50 per cent. in 1950. Since then the share of intra-European trade in the total has remained unchanged, while trade within North America has lost some of its relative importance owing to the very rapid growth of trade between the United States and Japan.

The large share of intra-European trade in world trade is, of course, due in some part to the fragmentation of this relatively small and compact industrial area into a number of countries, so that for the smaller ones international trade performs the same function as intra-regional trade in larger countries. This point is clearly brought out by the particularly high per capita trade of the smaller countries and the importance of trade between neighbouring countries (for instance, between Belgium and the Netherlands and inside Scandinavia). This pattern of trade is illustrated by the following diagram. The black and striped areas together indicate the share of trade with the O.E.E.C. countries (not including the associated overseas territories), which in the case of all countries except the United Kingdom, France and Italy represents more than 50 per cent. of total trade, the proportion being particularly high in the case of countries outside the European Economic Community, such as Austria and the Scandinavian countries.

The flow of trade from non-industrial to industrial areas has diminished from 28 per cent. of world exports in 1938 to 22.5 per cent. in 1957. Within this flow, however, the share of exports from Latin America to North America has increased from 8 to 17 per cent. during this period.

When the decline in the relative importance of trade between the industrial and non-industrial parts of the world was first studied by the G.A.T.T. Secretariat, it was attributed mainly "to a drastic fall in the requirements for raw materials and fuels per unit of manufacturing output and to the effect of agricultural protection in industrial areas and industrial protection in the primary-producing areas" (see also the Bank's Twenty-third Annual

Selected O.E.E.C. countries: Total and per capita foreign trade in 1956.



Note: Total exports and imports are each represented by a semi-circle bounded by a continuous line. Exports are on the left and imports on the right. The respective areas are proportional to total exports or imports, the scale being 1 mm² = \$100 million. The area of the semi-circles bounded by a broken line represents per capita exports and imports on the scale of 1 mm² = \$6.66. Thus two different scales are used, the relationship between them being 1:15 million.

Report, page 92). Further analysis revealed, in addition, the importance of domestic production of raw materials in industrial countries and of the relative decline of the textile industries as factors contributing to a fall in the demand for primary products. It has lately been found that the exports of the more important semi-industrial countries included in the "non-industrial" category (the Argentine, Brazil, Mexico, India, Australia, the Union of South Africa, Finland and Yugoslavia, which together account for roughly 80 per cent. of manufacturing activity outside the industrial area proper, excluding the U.S.S.R., eastern Europe and China) increased much less between 1938 and the post-war period than did those of the other non-industrial countries. This decline is attributable partly to the low income elasticity of the demand for some of the basic exports of these countries (such as cereals and textile fibres) and partly also to the competition of domestic demand with exports. The resulting balance-of-payments difficulties of this group of countries are in striking contrast to the favourable development of the foreign-payments position of the oil-producing countries, exports from which have increased twelvefold since before the war.

Because of their high degree of regional integration, the U.S.S.R., eastern Europe and China, which were included in the previous tables among the non-industrial areas, must be considered as a separate group. The total trade turnover of these countries — referred to, for simplicity's sake, as the eastern countries — is estimated to have increased, in round figures, from \$10 milliard in 1950 to \$20 milliard in 1956. It thus doubled in value, while world trade turnover — excluding the trade of the eastern countries among themselves — increased during the same period by 65 per cent. The proportion of the world total represented by the trade of the eastern countries, including that among themselves, rose from 8 per cent. in 1950 to 9½ per cent. in 1956.

The U.S.S.R., eastern Europe and China: Direction of foreign trade.

Trade turnover with	1950	1955	1956	1950	1955	1956
	in millions of U.S. dollars			as percentages of total		
Eastern countries	6,390	13,300	14,100	65	73	71
Other countries	3,430	4,810	5,890	35	27	29
Total	9,820	18,110	19,990	100	100	100

Following the Korean conflict there was a sharp decline in east-west trade, accompanied by an intense concentration, in the U.S.S.R. and eastern Europe, on the development of heavy industry. Since 1954 a change in policy in the eastern countries has made possible a certain reorientation of trade towards countries outside the eastern group, although, as the above table shows, the bulk of trade still takes place within the group and trade with countries outside it has not yet risen again to the pre-Korea percentage.

Although the U.S.S.R. is the largest single trading partner within the eastern group, the combined trade of six eastern European countries, namely Bulgaria, Czechoslovakia, eastern Germany, Hungary, Poland and Roumania, is of greater importance both within the group and vis-à-vis the outside world. In 1956 the U.S.S.R. provided 38 per cent. of all exports within the eastern group and 31 per cent. of exports to the outside world. The combined six eastern European countries contributed 47 and 52 per cent. respectively, the rest being accounted for by China, with 15 and 17 per cent. The shift towards a closer economic association between China and the eastern group took place in 1951.

Among the most recent developments in east-west trade has been a slowing-down of the rate of increase of trade between western Europe and the eastern group from 1956 to 1957, while the trade of the eastern countries with extra-European countries has grown much faster. This shift is no doubt connected with the conclusion by members of the eastern group of numerous trade agreements with countries in the Near East, Africa, South and South-East Asia and the granting of substantial credits to several of these countries. These credits, and the readiness of eastern countries to buy primary commodities and foodstuffs from countries, such as Egypt and

Foreign trade with the U.S.S.R., eastern Europe and China.

Countries ¹	Imports from eastern countries				Countries ¹	Exports to eastern countries			
	1938	1952	1956	1957 ²		1938	1952	1956	1957 ²
	as percentages of total					as percentages of total			
Iceland . . .	2	7	26	34	Egypt . . .	10	18	34	48
Finland . . .	9	19	25	32	Iceland . . .	1	7	30	35
Egypt . . .	10	7	14	27	Finland . . .	3	26	27	28
Hong Kong . . .	38	22	23	22	Yugoslavia . . .	15	0	24	26
Yugoslavia . . .	18	0	23	19	Iran	10	16	17	25
Turkey . . .	12	4	15	16	Syria	n. a.	n. a.	8	22
Iran	36	17	10	12	Turkey . . .	12	6	20	21
Austria . . .	³	11	10	10	Greece . . .	10	0.5	10	16
Burma . . .	n. a.	n. a.	19	7	Austria . . .	³	13	14	14
Syria . . .	n. a.	n. a.	4	7	Ghana . . .	1	5	2	11
Greece . . .	18	0.2	5	6	Ceylon . . .	1	9	11	11
Ceylon . . .	1	2	9	4	Burma . . .	n. a.	n. a.	14	10
Ghana . . .	2	1	2	3	Hong Kong . . .	45	19	4	5

¹ The countries listed are those for which imports from or exports to the U.S.S.R., eastern Europe and China represented at least 10 per cent. of total imports or exports in either 1956 or 1957. ² For the number of months for which information is available. ³ Included in Germany.

Iceland, which have difficulty in selling their main export products on western markets, have greatly increased the percentage of trade conducted with the eastern group by certain countries.

Well over a quarter of the increase in the total value of world exports in 1957 was accounted for by a rise in the exports of the United States. U.S. non-military exports went up from \$17.2 milliard in 1956 to \$19.3 milliard in 1957, i.e. by 12 per cent. Shipments to the Far East rose by one-quarter, those to Latin America by one-fifth and those to western Europe by one-eighth. On the other hand, exports to Canada fell by 3 per cent. from the high 1956 level, as a result of the industrial downturn, which set in earlier there than in the United States. The level of exports was particularly high in the first half of the year, when the influence of the still vigorous expansion in many countries was reinforced by exceptionally large sales of wheat, cotton and petroleum. Total agricultural exports rose by \$300 million, while non-agricultural exports increased by \$1.4 milliard, of which \$1.1 milliard was accounted for by finished industrial goods, which made up more than half the total of U.S. exports in 1957.

Imports went up by only 3 per cent., amounting to \$13 milliard in 1957, against \$12.6 milliard in the previous year. The entire increase of \$400 million was due to a growth in imports of finished industrial goods (primarily machinery and vehicles, purchases of which — mainly from western Europe and Japan — rose altogether by over \$200 million).

The export surplus shown in the balance of payments increased from \$4.5 milliard in 1956 to \$6 milliard in 1957. As the deficit in respect of

invisible items was reduced by \$350 million in 1957 compared with the previous year, owing to an increase in net receipts from transportation and investments, the surplus on current account rose from \$3,070 million to \$4,940 million.

The deficit on current account of \$180 million in relation to western Europe and its dependencies in 1956 was turned into a surplus of \$430 million in 1957. The change was almost entirely attributable to an increase in U.S. commercial exports to Europe, as a reduction in net payments in respect of invisible items was practically cancelled out by a rise in imports from Europe. Vis-à-vis other areas, the export surplus rose by \$990 million and net returns

United States: Balance of payments.

Items	All areas			Western Europe and dependencies		
	1955	1956	1957	1955	1956	1957
In millions of dollars						
Net military transfers under grants balanced by corresponding exports of goods and services (excluded from the following data) . .	2 130	2,610	2,510	1,590	1,890	1,570
Commercial exports	14,260	17,320	19,300	4,810	5,970	6,600
Commercial imports	11,510	12,790	13,260	3,340	3,930	4,040
Balance of trade	+ 2,750	+ 4,530	+ 6,040	+ 1,470	+ 2,040	+ 2,560
Invisible items (net)						
Transport	+ 130	+ 190	+ 410	+ 10	+ 50	+ 110
Travel	- 510	- 570	- 590	- 420	- 480	- 500
Investment income	+ 2,000	+ 2,040	+ 2,210	+ 330	+ 220	+ 240
Military expenditure	- 2,600	- 2,750	- 2,750	- 1,750	- 1,740	- 1,710
Private remittances, pensions and other invisible items	- 380	- 370	- 380	- 240	- 270	- 270
Total invisible items	- 1,360	- 1,460	- 1,100	- 2,070	- 2,220	- 2,130
Balance on current account . .	+ 1,390	+ 3,070	+ 4,940	- 600	- 180	+ 430
Government grants	- 1,860	- 1,690	- 1,610	- 800	- 470	- 320
U.S. capital movements (net) (outflow -)						
On government account	- 300	- 630	- 960	- 40	- 60	- 380
On private account	- 1,150	- 2,980	- 3,040	- 180	- 780	- 400
Total U.S. capital movements	- 1,450	- 3,610	- 4,000	- 220	- 840	- 780
Foreign capital movements (net) (inflow +)	+ 870	+ 410	+ 310	+ 450	+ 280	+ 410
Total net grants and capital movements (outflow -)	- 2,440	- 4,890	- 5,300	- 570	- 1,030	- 690
Increase in gold and decline in short-term liabilities to foreigners (+) . .	+ 600	+ 1,130	- 400	+ 590	+ 780	+ 310
Unrecorded payments, errors and omissions	+ 450	+ 690	+ 760	+ 580	+ 430	- 50
Total	- 1,390	- 3,070	- 4,940	+ 600	+ 180	- 430

from invisible items — which always yield a surplus because of the very large investment income from Canada and Latin America — went up by \$270 million.

The main counterpart of the surplus on current account was a net capital outflow of \$4 milliard. One-quarter of this was made up of government lending and three-quarters of private lending. In contrast to what happened in 1956, when there was a considerable increase in net private investments, these remained fairly stable in 1957 at about \$3 milliard, while net government lending increased from \$630 to 960 million. If non-military grants, which fell off somewhat in 1957, are added, the net outflow on government account comes to \$2,320 million in 1956 and \$2,570 million in 1957. The net inflow of long-term foreign capital declined to \$310 million in 1957, against \$410 million in the previous year, so that net U.S. capital exports (including grants) amounted to \$5,300 million in 1957, against \$4,890 million in 1956. If unrecorded payments to the United States (\$690 million in 1956 and \$760 million in 1957) are considered as capital inflows, the net outflow of U.S. capital works out at \$4,200 million in 1956 and \$4,540 million in 1957, including profits reinvested by American firms operating abroad. As the surplus on current account came to \$4,940 million in the latter year, the increase in gold holdings exceeded by \$400 million the increase in short-term liabilities to foreigners.

Developments in the current-account positions of the four most important western European countries were widely divergent, but the main problem of imbalance was again centred on the same two countries as in 1956. While the surplus position of the United Kingdom remained fairly stable and Italy moved from deficit to surplus, the French deficit deteriorated further and Germany continued to increase its already very large surplus. Among the smaller countries, Finland and the Netherlands succeeded in reducing their deficits, Austria and Sweden were able to keep their current payments practically in equilibrium, Belgium, Denmark and Norway had surpluses and Switzerland very likely had a small deficit owing to the extremely high level of its imports.

The United Kingdom has been in surplus on current account every year since 1948, with two exceptions, namely 1951 and 1955, when it replenished its stocks of imported materials and at the same time suffered a deterioration in its terms of trade. During these two years the outflow of capital was only a contributory factor to the strain on the country's foreign-payments position, whereas at other times (in 1947, 1949 and 1957) it was the main cause of strain, a speculative outflow of short-term capital being superimposed on the constant drain resulting from long-term investment abroad. It should be noted, however, that foreign aid received during the ten-year period 1948-57 (1948 being the first year since the war in which the current-account balance showed a surplus) was more or less of the same magnitude as the net outflow of capital (including the use of sterling balances and short-term movements).

The United Kingdom's imports rose from £3,890 million in 1956 to £4,080 million in 1957, or by 3½ per cent. in value and 2 per cent. in volume. The volume of exports also increased by 2 per cent. in 1957 and the terms of trade improved by 3 per cent. over the year. While in the first half of 1957 they were the same as in the corresponding period of 1956, in the last quarter of 1957 they were 9 per cent. more favourable than in the fourth quarter of 1956 and they continued to improve in the early part of 1958.

The very rapid rise in exports to the dollar area which had taken place in 1956 (an increase of 24 per cent. on the previous year) was not repeated in 1957, and, as imports from the dollar area rose sharply during the first half of the year, the balance of trade deteriorated by £82 million for the year as a whole. This adverse movement was partly offset by a decline in the deficits vis-à-vis other areas, so that the total import surplus increased by about £50 million.

The decline in the United Kingdom's share of world exports of manufactured products has received considerable attention in recent times. In 1957, while world exports of manufactured products increased by 11 per cent., those from the United Kingdom rose by only 6 per cent. Over the last twenty years, the share of the United Kingdom in the total of manufactured

Exports of manufactured products by main exporting countries.

Countries ¹	1937	1953	1956	1957 ²
	as percentages of total			
United States ³	19.9	26.0	25.2	25.8
United Kingdom	21.9	21.2	19.0	18.2
Germany	22.8 ⁴	13.2	16.4	17.1
Other European countries ⁵	23.2	29.0	27.9	27.4
Canada	4.9	6.8	5.9	5.6
Japan	7.3	3.8	5.7	5.9
Total listed countries	100.0	100.0	100.0	100.0

¹ The countries included in the table together account for about nine-tenths of exports of manufactured goods from countries other than the U.S.S.R., the eastern European countries 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, 28th February 1958.

goods exported by the main industrial countries has decreased from 21.9 to 18.2 per cent., the principal gainers having been the United States and the smaller European exporting countries.

To some extent, the decline is attributable to unfavourable elements in the geographical distribution and the composition of the country's export trade — in particular, the fact that over one-half of its exports go to the sterling area, which was one of the less buoyant markets in the 1950s, and the relatively high proportion of textile products in its foreign sales. Other contributory factors are the labour situation in the United Kingdom, the high level of domestic demand and the increasing competition for export markets

on the part of more recently industrialised countries, as well as the development of domestic manufacturing industries in overseas territories, including the older Dominions, which were formerly among the largest importers from the United Kingdom.

The United Kingdom had a surplus on current account of £237 million in 1957, compared with one of £266 million in 1956. As usual, the deficit in respect of visible trade was more than covered by net returns from invisibles. These were slightly higher than in 1956, mainly because of a reduction in government expenditure abroad and a rise in earnings from shipping.

United Kingdom: Balance of payments.

Items	1955	1956	1957	1957	
				1st half	2nd half
in millions of £ sterling					
Merchandise trade (f.o.b.)					
Imports	3,442	3,475	3,605	1,814	1,791
Exports (including re-exports)	3,076	3,414	3,508	1,776	1,732
Balance of trade	- 366	- 61	- 97	- 38	- 59
Invisible Items (net)					
Shipping	+ 123	+ 107	+ 115	+ 54	+ 61
Investment income	+ 77	+ 111	+ 100	+ 48	+ 52
Government transactions ¹	- 136	- 167	- 143	- 55	- 88
Other items	+ 233	+ 276	+ 262	+ 106	+ 156
Total invisible items	+ 297	+ 327	+ 334	+ 153	+ 181
Balance on current account	- 69	+ 266	+ 237²	+ 115	+ 122
Long-term capital account (net) (outflow -)					
Inter-governmental lending and repayments	- 53	- 51	+ 71	- 18	+ 89
Other long-term capital	- 150	- 180	- 260	- 150	- 110
Total	- 203	- 231	- 189	- 168	- 21
Balance on current and long-term capital account	- 272	+ 35	+ 48	- 53	+ 101
Balanced by					
Overseas sterling holdings (decrease -)					
of countries	- 127	- 155	- 154	+ 73	- 227
of non-territorial organisations ³	- 7	+ 200	- 24	- 9	- 15
Unidentified capital movements and balancing item (inflow +) ⁴	+ 176	- 41	+ 154 ²	+ 50	+ 104
Gold and dollar reserves (increase -) . .	+ 229	- 5	- 50	- 88	+ 39
Other official holdings of foreign exchange ⁵	+ 1	- 34	+ 26	+ 27	- 1
Total	+ 272	- 35	- 48	+ 53	- 101

¹ Including net defence aid, the amount of which has fallen from £46 million in 1955 to £26 million in 1956 and £21 million in 1957. ² According to a statement made by the Chancellor of the Exchequer in his budget speech, the current surplus will most likely be larger than the provisional figure of £237 million, as a substantial proportion of the balancing item representing unidentified transactions is almost certainly attributable to current transactions. ³ Including drawings on the I.M.F. in the second half of 1956 amounting to £201 million. ⁴ Including errors and omissions. ⁵ Including balance with the E.P.U. and special waiver account. The interest due on 31st December 1956 on the U.S. and Canadian credits and the lend-lease settlement loan amounting to £37 million was paid into this account pending a decision on the United Kingdom's request for a waiver. Following an agreement with the U.S. and Canadian Governments the £37 million was returned to the gold and dollar reserves in April 1957.

The current surplus in relation to the rest of the sterling area increased from £307 million in 1956 to £343 million in 1957, chiefly owing to a rise in receipts from U.K. oil companies, which recovered very quickly in the second half of the year after their fall during the Middle East crisis. On the other hand, the deficit in relation to the non-sterling world rose from £41 million in 1956 to £106 million in 1957.

The overall balance on current and long-term capital account showed in 1957 a small surplus of £48 million (against one of £35 million in the previous year). This surplus was the net result of the current surplus of £237 million and an outflow of long-term capital of £189 million. But while the surplus on current account was of practically the same size in the first and second halves of the year, the net outflow of capital amounted to £168 million in the first half and only £21 million in the second. The resultant changes on current and capital account were a deficit of £53 million and a surplus of £101 million in the respective half-years.

The fact that the changes in reserves were in the opposite direction to the changes in the current and capital account (there having been an increase in reserves in the first half and a decline in the second half of the year) was chiefly due to movements in the sterling balances of countries of the overseas sterling area. While these rose in the first half by £69 million owing to the drawing by India on the International Monetary Fund, they were reduced in the second half by £226 million as a result of a deterioration in the terms of trade of the overseas sterling countries coinciding with a rise in their imports.

The main result of the diverse capital movements described above was a reduction in the United Kingdom's short-term liabilities vis-à-vis the sterling area at the expense of an increase in medium and long-term indebtedness vis-à-vis the dollar area and the non-territorial organisations.

During the first four months of 1958, owing to the continued fall in import prices, the import surplus was reduced to £106 million (against £252 million in the corresponding period of 1957) and, except for a deterioration in the external position of the overseas sterling area, most other elements in the balance of payments also developed favourably. Consequently, the United Kingdom increased its gold and foreign exchange reserves by £229 million (or \$641 million).

In France, the adverse movement of the balance of payments which had developed in 1956 was further accentuated in 1957. The causes of this development are clearly summarised by the National Credit Council in the introduction to its report for that year. They were attributable essentially to "an excessive expansion of domestic demand which the country's resources, though steadily increasing, were no longer able to satisfy. These requirements, generated by a combination of rising consumption, an increasing volume of investment and ever-mounting public expenditure, could no longer be met other than by imports which were too far in excess of France's sales abroad and which, nevertheless, were incapable of checking the rise in prices."

According to the French foreign trade statistics, the overall commercial deficit rose from Fr.fcs 355 milliard in 1956 to Fr.fcs 377 milliard in 1957. When trade with the franc area is excluded, it appears that the deficit vis-à-vis foreign countries — which is more relevant to the foreign exchange position — increased from Fr.fcs 415 milliard in 1956 to Fr.fcs 493 milliard in 1957, most of the deterioration having taken place during the first half of the year, when imports climbed to Fr.fcs 928 milliard and the import surplus reached Fr.fcs 321 milliard.

The growth in the deficit vis-à-vis foreign countries was concentrated in the industrial sector and was mainly accounted for by imports from the dollar area. Fuel imports from the United States alone rose from Fr.fcs 47 milliard in 1956 to Fr.fcs 94 milliard in 1957. The changes observable in the commodity pattern of French foreign trade during recent years show that, in contrast to other highly developed western European countries, France continues to rely on exports of foodstuffs, raw materials and semi-processed goods for a large proportion (about two-thirds in 1957) of its total export proceeds. They also show that in the case of manufactured goods imports are expanding faster than exports.

France: Composition of foreign trade.*

Items	Imports			Exports		
	1955	1956	1957	1955	1956	1957
in milliards of French francs						
Foodstuffs, beverages and tobacco	121	194	153	181	136	173
Energy, fuels, raw materials and semi-manufactured goods	912	1,044	1,233	667	635	661
Manufactured goods	226	278	341	329	330	400
Total	1,259	1,516	1,727	1,177	1,101	1,234

* Excluding overseas territories.

During the period under review, inflationary pressures have unquestionably added their influence to that of more deep-seated factors tending to weaken the structure of French foreign trade. The continuation of this trend (or its reversal through a compulsory limitation of the flow of trade) would have an adverse effect not only on the foreign balance but also on the possibility of raising income per head in a country where there will shortly be a period of increase in the population of working age.

According to balance-of-payments estimates, which are made on a cash basis, the import surplus of metropolitan France amounted to \$672 million in the first half of the year, against \$808 million for the whole of 1956 (and \$276 million for the first half of 1956). The deterioration was due, as stated above, to the upsurge of imports and also to a worsening in the terms of payment. Importers, who feared both a reintroduction of quotas and a devaluation of the franc, increased their purchases of raw materials beyond their actual needs and advanced their payments, while exporters postponed

the repatriation of their foreign exchange earnings as long as the exchange control regulations permitted.

The deficit on trade account was aggravated by a deficit in respect of invisible items, which normally yield a surplus. The rise in freight rates more than doubled the net expenditure on transportation account as compared with the first half of 1956; net government receipts fell off, mainly because of a curtailment of U.S. off-shore procurement contracts; and net receipts from tourist trade deteriorated further. Whereas in the first half of 1956 France had a surplus on invisible account of \$131 million, in the corresponding period of 1957 there was a deficit of \$140 million.

French franc area: Balance of payments.

Items	1955	1956	1956		1957 1st half
			1st half	2nd half	
in millions of U.S. dollars					
Metropolitan France					
Merchandise trade (f.o.b.)					
Imports	3,064	4,087	1,936	2,151	2,374
Exports	3,150	3,279	1,660	1,619	1,702
Balance of trade	+ 86	- 808	- 276	- 532	- 672
Invisible Items (net)					
Transport	- 119	- 236	- 101	- 135	- 249
Investment income	+ 71	+ 103	+ 48	+ 55	+ 42
Tourist trade	+ 34	- 66	-	- 66	- 27
Government receipts	+ 513	+ 391	+ 207	+ 184	+ 140
Other invisible items	+ 17	- 68	- 23	- 45	- 46
Total invisible items	+ 516	+ 124	+ 131	- 7	- 140
Balance on current account	+ 602	- 684	- 145	- 539	- 812
Overseas territories¹					
Balance on current account with foreign countries	- 196	- 151	- 113	- 38	- 107
Whole of French franc area					
Balance on current account	+ 406	- 835	- 258	- 577	- 919
Balance on capital account ²	- 72	- 11	- 18	+ 7	+ 103
Total balance on current and capital account	+ 334	- 846	- 276	- 570	- 816
Balanced by					
Foreign aid (net)	+ 538	+ 99	+ 123	- 24	+ 22
E.P.U. credits received (+)	- 155	+ 121	- 12	+ 133	+ 123
Drawings on I.M.F. (+)	- 60	- 45	- 45	-	+ 262
Changes in gold and foreign ex- change reserves (Increase →)	- 673	+ 698	+ 234	+ 464	+ 392
Errors and omissions	+ 16	- 27	- 24	- 3	+ 17
Total	- 334	+ 846	+ 276	+ 570	+ 816

¹ 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, Morocco, Tunisia, and, as regards the share of their transactions taking place via the Paris foreign exchange market, Cambodia, Laos and Viet-Nam.

² Excluding drawings on or repayments to the I.M.F.

France's deficit on current account rose between these two half-years from \$145 to \$12 million. In addition, the overseas territories had, as usual, a deficit vis-à-vis the rest of the world, so that the total deficit to be covered amounted to \$919 million. As there was a net inflow of capital of \$103 million, the resultant deficit on current and capital account amounted to \$816 million. This was financed by using up the whole of the credit of \$262.5 million granted by the International Monetary Fund in the autumn of 1956, by increasing the country's indebtedness to the E.P.U. and by drawing on the foreign exchange reserves to the extent of nearly \$400 million.

In order to check the drain on the reserves, the French Government took a series of measures in the course of the year. Of these the one which was intended to affect imports most directly was the suspension of liberalisation on 18th June.* Owing, however, to a backlog of licences previously delivered, the impact of this measure was somewhat delayed. The partial devaluation by 16.7 per cent. on 12th August, which did not apply to fuels and some raw materials (representing in all about 40 per cent. of total imports), had the immediate effect of increasing purchases of such products (mainly steel from the European Coal and Steel Community, the import of which cannot be subjected to quantitative restrictions). According to the customs statistics, the value of imports from foreign countries fell from Fr.fcs 928 milliard in the first half of 1957 to Fr.fcs 800 milliard in the second half, while there was a moderate rise in exports, which helped to reduce the trade deficit from Fr.fcs 321 to 172 milliard. Despite this contraction of the import surplus, the overall deficit of the French franc area for the year as a whole (detailed figures for the second half are not available at the time of writing) is estimated to have been as much as \$1,450 million in 1957, against \$846 million in the previous year.

For 1958 the French Economic Budget aims at reducing this deficit to between \$400 and 450 million by cutting down imports and improving the balance on invisible account. During the first four months of 1958, while the position in relation to the dollar area developed satisfactorily, deficits vis-à-vis the E.P.U. totalled \$168 million.

Since 1951, Germany has regularly been in surplus on current account. But, whereas the surplus declined between 1953 and 1955, the trend was reversed in 1956, and in 1957 the surplus reached the unprecedented level of DM 7.7 milliard. Not only did Germany increase both its export surplus and its surplus on invisible account, but the improvement in the terms of payment during the year contributed, to a considerable extent, to the rise in its foreign exchange reserves.

Both exports and imports increased less rapidly in 1957 than in the previous year but the export surplus rose from DM 2.9 to 4.3 milliard, a

* To comply with the Code of Liberalisation, France should reintroduce 60 per cent. liberalisation not later than 18th June 1958 and return to at least 75 per cent. by 18th December 1958.

development which was due mainly to changes in volume and only fractionally to an improvement (of 1 per cent.) in the terms of trade.

The total increase in imports (from DM 28.0 to 31.7 milliard) was fairly evenly distributed among all classes of goods, though the expansion was somewhat more marked in the case of consumer goods, purchases of which increased by 22 per cent., owing to a rise in personal incomes, the higher rate of dollar liberalisation introduced in June 1956 and the reduction in customs duties which took place in the course of 1957. The increase in exports (from DM 30.9 to 36.0 milliard) was due to larger sales of nearly all categories of goods, including motor-cars, exports of which rose by 22 per cent. in value. It is worth noting that there was a particularly sharp increase in car exports to the United States in the second half of the year, when economic activity was declining there.

As in the previous year, the bulk of Germany's export surplus was in relation to continental O.E.E.C. countries, but for the first time since the end of the war there was also a surplus vis-à-vis the sterling area, owing to a considerable increase in exports to India and the Union of South Africa. The surplus in relation to payments-agreement countries outside the E.P.U. area was much larger than in the preceding years, partly because of a substantial increase in the positive balance vis-à-vis Japan and partly because the previous large deficit with Brazil was turned into a surplus.

In relation to the dollar area, imports soared by over DM 2 milliard, while exports increased by DM 1 milliard. Apart from the exceptional purchases of fuel in the winter of 1957, one reason for the very sharp rise in imports must have been the more competitive prices and delivery terms offered by the dollar countries. In addition, certain raw materials and semi-manufactured products, such as scrap, were obtainable only on dollar markets.

In order to reduce the current surplus, Germany extended the O.E.E.C. free list to imports from most non-dollar countries and raised the rate of dollar-trade liberalisation to 93.4 per cent. Duties on industrial products were lowered from 20th August until the end of the year by 25 per cent. This measure was extended for an indefinite period at the beginning of 1958.

The total surplus on current account in 1957 (DM 7.7 milliard) showed an increase of DM 2.2 milliard over the previous year, of which two-thirds is attributable to trade and one-third to invisible items. Among the latter, receipts from services rendered to foreign armed forces — mainly the exchange of dollars into local currency — rose from DM 1.6 milliard in 1956 to nearly DM 2.7 milliard in 1957.

Indemnification payments to residents abroad and deliveries to Israel, which are shown under the heading "indemnities and reparations", increased by over DM 0.5 milliard to DM 1.6 milliard, thus reducing the surplus on current account in 1957 to DM 6.0 milliard. Against this there was a net outflow of capital of DM 2.5 milliard, the result of wide and conflicting movements.

Germany: Balance of payments.

Items	1955	1956	1957	1957	
				1st half	2nd half
in millions of Deutsche Mark					
Merchandise trade					
Exports (f.o.b.)	25,716	30,861	35,968	17,245	18,722
Imports (c.i.f.)	24,472	27,964	31,697	15,324	16,372
Balance of trade	+ 1,244	+ 2,897	+ 4,271	+ 1,921	+ 2,350
Invisible items (net)	+ 1,701	+ 2,802	+ 3,421	+ 1,699	+ 1,722
Balance on current account	+ 2,945	+ 5,499	+ 7,692	+ 3,620	+ 4,072
Indemnities and reparations	- 614	- 1,104	- 1,650	- 767	- 683
Balance on current account, including indemnities and reparations	+ 2,131	+ 4,395	+ 6,042	+ 2,853	+ 3,189
Balanced by					
Capital movements (outflow +)	+ 435	+ 358	+ 2,544	+ 1,545	+ 999
Change in terms of payment (in favour of Germany -) *	- 225	- 633	- 1,693	- 1,075	- 618
Change in gold and foreign exchange reserves (increase +)	+ 1,921	+ 4,670	+ 5,191	+ 2,383	+ 2,808

* Including miscellaneous capital, errors and omissions.

The most important of these movements consisted of payments and prepayments for armaments deliveries, which totalled DM 2.1 milliard in 1957, against only DM 240 million the previous year. As documentary and cash credits utilised amounted to DM 140 million, the net outflow on short-term capital account came to DM 1,960 million. On long-term account, private net investment by foreigners in Germany and private investment abroad were almost equal. The former amounted to not quite DM 700 million (a rise of about DM 300 million on the previous year) and the latter to DM 780 million (a rise of DM 380 million), by far the greater part of which was accounted for by direct investment. There was thus a net outflow of private capital of some DM 80 million. In addition, government transactions gave rise during the year to an outflow of DM 450 million.

The difference between the net surplus on current and capital account (amounting in 1957 to DM 3.5 milliard) and the change in the gold and foreign exchange reserves (of DM 5.2 milliard) is explained by shifts in the terms of payment, which constituted the principal form of speculation in favour of the Deutsche Mark and corresponded to an inflow of capital of some DM 1.7 milliard. A second form of speculation, which took place earlier in the year and whose quantitative importance cannot be estimated, consisted in an actual speeding-up of foreign imports from Germany and, possibly, a delaying of Germany's imports from abroad.

In the first quarter of 1958 there was a current-account surplus of DM 1.8 milliard, against one of DM 1.6 milliard in the corresponding period of 1957, almost the whole of the increase having been due to an improvement

in the terms of trade, which rose from 99 to 107 (basis 1954) between the two quarters.

The external position of Italy showed a satisfactory improvement in 1957. Although the trade deficit was \$63 million greater than in the previous year, it was more than offset by net invisible receipts, which increased by \$198 million, with the result that the country had a surplus on current account for the first time since the war.

Italy: Balance of payments.

Items	1955	1956	1957
	In millions of U.S. dollars		
Merchandise trade			
Imports (c.i.f.)	2,518	2,908	3,332
Exports (f.o.b.)	1,857	2,160	2,521
Balance of trade	- 661	- 748	- 811
Invisible items (net)			
Freights	+ 157	+ 190	+ 225
Tourist trade	+ 190	+ 213	+ 316
Workers' and emigrants' remittances	+ 125	+ 154	+ 187
Other invisible items*	+ 68	+ 101	+ 128
Total invisible items	+ 540	+ 658	+ 856
Balance on current account	- 121	- 90	+ 45
Foreign aid (receipts —)	- 74	- 77	- 137
Capital movements (inflow —)	- 155	- 122	- 104
Changes in gold and foreign exchange reserves (increase +)	+ 108	+ 109	+ 286

* Including adjustments.

While imports increased by 14 per cent. in value compared with 1956, exports rose by 18 per cent. Sales of manufactured products actually increased by as much as 23 per cent., and accounted for 50 per cent. of total exports in 1957. The expansion was especially marked in the case of exports of engineering goods and chemicals, the former having taken over the lead from foodstuffs for the first time as the main class of Italian exports. There was also a substantial rise in exports of agricultural products owing to the disposal of surplus stocks of wheat, flour and sugar at below the domestic price.

All invisible items yielded higher returns than in 1956; in particular, receipts from the tourist trade rose by over \$100 million. This was due not only to an increase in the number of tourists (estimated at 14.5 million, compared with 13 million in the previous year) but also to the fact that the proportion of receipts flowing into official channels was larger than in the past. The surplus on current account was supplemented by foreign aid, which rose from \$77 million in 1956 to \$137 million in 1957 — owing to considerable U.S. deliveries of agricultural surpluses (chiefly of cotton),

totalling \$94 million in 1957, compared with \$32 million in the previous year — and by a net capital inflow of \$104 million, so that there was an overall increase in reserves of \$286 million.

The overall improvement in the external position of the Netherlands in 1957 was primarily due to a substantial inflow of capital, as no major change took place on current account. The very large import surplus (nearly Fl. 1.5 milliard) in the first half of the year was reduced to less than Fl. 900 million in the second half as the result both of a quite considerable rise in exports and of a drawing-down of the rather excessive stocks which had previously been built up. Thus the import surplus for the year as a whole was somewhat smaller than in 1956. As net receipts from invisible items were greater than in the previous year, the deficit on current account was reduced from Fl. 550 million in 1956 to Fl. 340 million in 1957.

The total net inflow of capital amounted to Fl. 460 million, against an outflow of Fl. 350 million in the previous year, the change having been due to the combined effect of three major shifts in the private sector. Firstly, the net outflow of Dutch capital was reduced from Fl. 380 to 180 million, chiefly because of a reduction in net lending abroad, at long and short term, from Fl. 250 to 30 million, while other movements offset each other. Secondly, there was a considerable inflow of foreign capital resulting from the sale of Dutch securities to non-residents, receipts from this source having increased from Fl. 110 million in 1956 to Fl. 430 million in 1957. Finally, there was a change in other movements of foreign capital from a net outflow of Fl. 60 million to a net inflow of Fl. 200 million. The resultant total

Netherlands: Balance of payments.

Items	1955	1956	1957	1957	
				1st half	2nd half
<i>In millions of florins</i>					
Merchandise trade (f.o.b.)					
Imports	11,298	12,994	13,729	6,932	6,797
Exports	9,524	10,527	11,360	5,452	5,908
Balance of trade	-1,774	-2,467	-2,369	-1,480	- 889
Invisible items (net)					
Investment income	+ 318	+ 246	+ 242	+ 189	+ 53
Emigrants' remittances and private donations	+ 35	+ 15	+ 6	-	+ 6
Other invisible items	+1,755	+1,653	+1,785	+ 844	+ 941
Total invisible items	+2,108	+1,914	+2,033	+1,033	+1,000
Balance on current account	+ 334	- 553	- 336	- 447	+ 111
Capital movements (outflow +)	+ 322	+ 348	- 462	- 166	- 296
Changes in gold and foreign exchange reserves (increase +)*	+ 12	- 901	+ 126	- 281	+ 407

* Including consolidated claims originating from payments agreements.

surplus on capital account more than balanced the deficit of Fl. 340 million on current account, so that there was a rise in gold and foreign exchange reserves of Fl. 130 million.

The Belgium-Luxemburg Economic Union had a surplus on current account in the first half of 1957, as in the corresponding periods of the two previous years, having had a positive balance in respect both of commercial transactions and of invisible items. While in 1956 the surplus on current account was B.fcs 12.7 milliard, it is estimated to have amounted in 1957 to B.fcs 10 milliard. The 1956 surplus on current account was wholly balanced by a net outflow of capital, attributable as to B.fcs 9.2 milliard to private capital movements and as to B.fcs 3.5 milliard to net transactions by public authorities. Private capital movements included subscriptions totalling B.fcs 2.1 milliard to a loan issued by the Government of the Belgian Congo. The net outflow of private capital continued during the first half of 1957, when it amounted to B.fcs 5.9 milliard, and the net transactions of the public authorities caused an additional net outflow of B.fcs 1.1 milliard. The total net outflow (B.fcs 7 milliard) was much larger than the surplus on current account (B.fcs 4.6 milliard) and was financed by drawing down foreign balances — a state of affairs which was reversed in the fourth quarter of the year.

Balance of payments of selected countries.

Countries and years	Merchandise trade			Net income from invisible items	Balance on current account
	Imports ¹	Exports	Balance		
Austria (millions of U.S. dollars)					
1955	887	710	— 177	+ 47 ²	— 130
1956	974	901	— 73	+ 33 ²	— 40
1957	1,128	1,021	— 107	+ 95 ²	— 12
Belgium-Luxemburg (milliards of francs)					
1955	118.5	126.6	+ 8.1	+ 2.3	+ 10.4
1956	136.5	143.8	+ 7.3	+ 5.4	+ 12.7
1957 1st half .	74.7	75.3	+ 0.6	+ 4.0	+ 4.6
Switzerland (millions of francs)					
1955	6,401	5,622	— 779	+ 1,441	+ 662
1956	7,597	6,203	— 1,394	+ 1,519	+ 125
1957	8,447	6,714	— 1,733		

¹ In the case of Austria and Belgium imports are f.o.b., in that of Switzerland c.i.f. ² Including unrequited deliveries made in compliance with the State Treaty. These amounted to \$14 million in 1955, \$51 million in 1956 and \$43 million in 1957.

According to estimates made by the National Bank, Switzerland had a small current-account deficit of between Sw.fcs 150 and 200 million in 1957. The fluctuations in the country's current-account position are determined by the changes in the balance of trade, net returns from invisible items being a much more stable factor. In 1957 imports rose by Sw.fcs 850 million over the previous year, nearly the whole of the increase having taken place during the first six months, and exports went up by Sw.fcs 500 million. Consequently the trade deficit increased from Sw.fcs 1.4 to 1.7 milliard. Net receipts from invisibles were probably not far short of Sw.fcs 1.6 milliard. Switzerland is

a net creditor in respect of all invisible items with the exception of some minor items such as electricity and postal charges. In 1956, for the first time, receipts from the tourist trade exceeded Sw.fcs 1 milliard, while the expenditure of Swiss tourists abroad is estimated at Sw.fcs 435 million, leaving a surplus of Sw.fcs 635 million. This, together with the country's net investment income of Sw.fcs 580 million, covered over 85 per cent. of its deficit in respect of merchandise trade in that year. No official estimates of the capital account of the balance of payments are published by the Swiss authorities. The difference between the current surplus and the change in the reserves only indicates whether there was, on balance, an inflow or an outflow of capital. From 1952 to 1955 the current surplus was larger every year than the increase in the gold and foreign exchange reserves of the National Bank; in 1956 and 1957 the position was reversed and there was a net inflow of foreign capital.

In Austria the level of economic activity was again very high in 1957, and there was consequently a substantial rise in imports. Since exports did not increase to quite the same extent, the import surplus rose from \$73 million in 1956 to \$107 million; this change was more than compensated, however, by a considerable growth in net receipts from invisible items, which rose from \$85 to 138 million. The rise of \$53 million was mainly attributable to an increase of \$27 million in net receipts from the tourist trade and a reduction in net expenditure on transportation. There was thus, in both 1956 and 1957, a small surplus in respect of trade and services. If, however, as is done in the table on page 137, unrequited deliveries made in compliance with the State Treaty with the U.S.S.R. are included among the invisible items, there is found to have been a deficit of \$40 million in 1956 and one of \$12 million in 1957. In both years the net inflow of capital was larger than the deficit on current account and this, together with a net gain in respect of unrecorded capital movements, enabled Austria to increase its foreign exchange reserves.

In 1957 all four northern European countries improved their positions on current account. Finland and Sweden approached equilibrium, while Denmark and Norway achieved a surplus. This improvement was essentially due to an increase in net earnings from shipping, since, except in the case of Finland, the deficit on merchandise account was about the same as in 1956. The shipping receipts of all four countries together rose by over 15 per

Northern countries: Net freight earnings.

Countries	1952	1953	1954	1955	1956	1957
	in millions of U.S. dollars					
Denmark	39	38	29	36	53	80
Finland	43	40	43	60	70	73
Norway	294	239	235	297	406	462
Sweden	208	166	169	198	235	271
Total	584	483	476	591	764	886

cent. in 1957 notwithstanding the fact that freight rates, after having reached very high levels in the first half of the year, fell back in the second half to below the pre-Suez level. As quite a number of time charters were still running under contracts concluded at higher rates, receipts did not in fact decline to the same extent.

The ratio of shipping receipts to imports is much higher in the case of Norway than in that of the three other countries. In Norway 36 per cent. of imports were covered by net shipping receipts in 1957, while in Sweden the proportion was 12 per cent. and in Finland and Denmark 8 and 6 per cent. respectively.

Denmark, which is very sensitive to influences from abroad, benefited in 1957 from the fall in the prices of raw materials (which, together with fuels, account for over 70 per cent. of its total imports). As, in addition, the volume of imports was affected by the decline in domestic economic activity in the second half of the year, the deficit on merchandise account was reduced, having amounted, for the year as a whole, to D.Kr. 485 million, or D.Kr. 90 million less than in 1956. A little over one-half of Danish exports consists of farm products and the remainder of industrial goods, including canned meat and milk. While exports of industrial products rose by 12 per cent. in 1957, those of farm products actually fell slightly — a sharp drop in sales of butter having been offset by an increase in exports of cattle and meat. Net income from invisible items rose in 1957 to D.Kr. 700 million — of which D.Kr. 550 million was on account of shipping — and was thus much larger than the import surplus, so that there was an appreciable rise in foreign exchange reserves.

In Finland the decline in the deficit on current account was mainly due to a reduction of the deficit in respect of merchandise trade, which was brought about partly by a number of governmental measures. In connection with the stabilisation programme introduced in March 1957 a temporary quota system was adopted in respect of imports from the main O.E.E.C. countries. This system was applied from April until the end of September 1957. After the devaluation of the markka in September it was replaced by automatic licensing, and at the end of the year free lists were introduced which towards the end of January 1958 were applied to most O.E.E.C. countries, the dollar area and a number of countries with which bilateral agreements are in force. In relation to O.E.E.C. countries, the rate of liberalisation in March 1958 attained about 82 per cent. of private imports (on the basis of 1954). The fall in imports during the second half of 1957 was primarily due to the restrictive measures adopted in March, other causes having been the decline in economic activity, the strict monetary policy and, after the devaluation, the higher cost of foreign goods. For the year as a whole the volume of imports fell by 2 per cent. in relation to 1956, while exports increased by 8 per cent., so that the import surplus was reduced from FM 26.1 to 15.9 milliard. The eastern countries' share in Finland's total imports increased

Northern countries: Balance of payments.

Countries and years	Merchandise trade			Net income from invisible items	Balance on current account
	Imports ¹	Exports	Balance		
Denmark (millions of kroner)					
1955	7,518	7,408	- 110	+ 277	+ 167
1956	8,371	7,797	- 574	+ 458	- 116
1957	8,725	8,240	- 485	+ 700	+ 215
Finland (milliards of markkas)					
1955	177.5	181.5	+ 4.0	+ 10.6	+ 14.6
1956	204.3	178.2	- 26.1	+ 13.1	- 13.0
1957	227.4	211.5	- 15.9	+ 13.5	- 2.4
Norway (millions of kroner)					
1955	7,896	4,729	- 3,167	+ 2,254	- 913
1956	8,750	5,736	- 3,014	+ 2,949	- 65
1957	9,189	5,937	- 3,252	+ 3,377	+ 125
Sweden (millions of kronor)					
1955	10,337	8,933	- 1,404	+ 990	- 414
1956	11,434	10,067	- 1,367	+ 1,240	- 127
1957	12,533	11,104	- 1,429	+ 1,400	- 29

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

in 1957 and, for the first time, imports from the U.S.S.R. outstripped those from the United Kingdom, traditionally Finland's chief supplier. The trade deficit was to a large extent made good by receipts from shipping, and the total deficit on current account is estimated at FM 2.4 milliard, against FM 13.0 milliard in the previous year. This was financed partly by long-term borrowing, mainly in the form of loans for the purchase of specific goods in the lender's country, and partly by drawing down short-term assets.

In Norway, large receipts from freights more than offset the growing deficit on merchandise account. The rise of some N.Kr. 450 million in imports was mainly accounted for by base metals, machinery and transport equipment, while imports of ships, which represent nearly a fifth of the country's purchases abroad, remained practically the same as in 1956. Sales of ships, which constitute nearly one-tenth of total exports, fell slightly below the 1956 level, while other exports rose by over N.Kr. 200 million. Since, in addition to shipping, other minor invisible items produced a net gain, there was an overall surplus on current account of N.Kr. 125 million. The favourable payments position enabled Norway to continue its trade liberalisation, the percentage being raised in the course of the year from 78 to 81 in respect of O.E.E.C. countries and from 84 to 87 in respect of the dollar area.

In Sweden the value of both imports and exports rose by some 10 per cent. in 1957 and, at S.Kr. 1.4 milliard, the deficit on merchandise account was only slightly larger than that of the previous year. The volume of imports increased by 7 per cent. over 1956 and that of exports by 8 per cent., while there was a slight deterioration in the terms of trade owing

to a greater rise in the prices of imports than in those of exports. The total value of exports increased by S.Kr. 1 milliard. Nearly two-thirds of this rise was accounted for by exports of machinery, vehicles and instruments, while those of forestry products were only very little higher than in 1956, an increase in shipments of timber and newsprint having been largely offset by a decline in sales of pulp. Consequently, the share of forestry products in total exports, which in 1951 — owing to very high prices — was more than half and in later years above 40 per cent., fell to 38 per cent. in 1957, while the share of machinery, etc., which had been about 20 per cent. in previous years, leapt to 27 per cent. Among imports, those of durable consumer goods expanded most, but purchases of semi-manufactures required for the production of capital goods also increased considerably. Net income from shipping rose by about S.Kr. 200 million, or 15 per cent., as compared with 1956, and the net income from invisible items practically covered the trade deficit.

* * *

The description of balance-of-payments developments given above shows that capital movements have now become once more, for good or evil, an important factor in international economic relations.

The disruption of these relations during the 1930s and the war years affected movements of capital and labour as much as it did trade. Similarly, when the economic integration of the western countries was resumed after the war, this resulted in greater freedom of movement for both these factors of production. According to the estimates of the Economic Commission for Europe, the outflow of capital from creditor countries in recent years has been, in real terms, twice as great as in 1928. Capital movements to primary-producing countries have shown a particularly marked increase. This has been due both to the growth in private capital movements and to the greater importance of official lending.

Private capital movements, though still (in general) severely restricted, have been relatively unimpeded in some particularly important cases, namely movements from the metropolitan countries (the United Kingdom, France and Belgium) to associated countries overseas, and movements in all directions from other traditional capital exporters, such as the United States and Switzerland. Of the main forms of longer-term investment, direct investment by business is more permanent, more likely to promote exports and less subject to perverse movements; funds for this type of investment have therefore been allowed to flow more freely by most countries and have also been given priority in the O.E.E.C.'s programme for the liberalisation of capital movements. Portfolio investment differs from direct investment in several respects. In recent years portfolio investment has been prompted, in considerable measure, by motives of tax evasion and the funds in question have passed through the meshes of exchange control; some of these funds have flowed from deficit countries to surplus countries, thus contributing to the imbalance of international payments.

Short-term capital movements are also apt to exert a destabilising influence during critical periods, since they are affected by expectations of currency appreciation or depreciation. The experience of recent years has provided further evidence of this; but it has also shown that official agencies in charge of foreign exchange holdings, as well as commercial banks and other authorised foreign exchange dealers, react promptly to interest-rate differences between the main markets, such as have existed recently between New York and London, and that then the movements are of a stabilising nature.

International capital movements as a whole are difficult to trace statistically and some of their components (such as commercial credits and the reinvestment of profits from direct foreign investment) are especially so; the fact that these are treated differently in the various national balance-of-payments documents creates an additional problem. It is nevertheless possible, thanks to the standard presentation of national balance-of-payments accounts in the yearbooks of the International Monetary Fund, to gain a fairly clear picture of the volume and direction of the main capital flows over a period of years.

The following figures for capital movements in the ten years 1947-56, despite their apparent precision, should, however, be regarded as a mere indication of orders of magnitude. Private non-bank capital exports from the United States amounted to \$8.3 milliard and those from the United Kingdom to \$5.2 milliard. The industrially developed countries of continental western Europe (i.e. the continental O.E.E.C. member countries, excluding Portugal, Greece and Turkey) were net importers of some \$2.1 milliard of private non-bank capital. The three potential capital-exporting areas in the West, taken together, thus supplied about \$11.4 milliard to the rest of the world in the form of net private non-bank capital exports.

In order to obtain a more complete picture of the international flow of investment capital, the movements of long-term official and bank capital should be added to the figures for private non-bank capital. Long-term capital exports from official and banking sources during the ten years under consideration amounted to \$9.2 milliard from the United States and \$1.2 milliard from developed countries in continental western Europe. Under the same heading the United Kingdom was a net importer to the extent of \$1.2 milliard.

In the overall position, the United States is found to be by far the largest net exporter of investment capital, with \$17.5 milliard in the ten-year period, followed by the United Kingdom, with \$4.0 milliard, while the industrially developed countries on the European continent were net importers of capital to the extent of nearly \$1 milliard.

The relative position of the three areas changes radically, however, when short-term flows of funds from banks and official sources (excluding movements of monetary gold) are taken into account. The United States and the United Kingdom were both importers from this point of view, being

the main repositories of the foreign exchange holdings of other countries; continental western Europe was a large exporter, through the accumulation of dollar holdings. The net inflows into the United States and the United Kingdom amounted to \$6.7 and 1.1 milliard respectively; the net outflow from continental western European countries was \$1.2 milliard. When account is taken of these short-term flows, the developed countries of continental western Europe are also seen to have exported a certain amount of capital (\$0.3 milliard, compared with \$10.8 milliard in the case of the United States and \$2.9 milliard in that of the United Kingdom).

The principal beneficiaries of the outflow of investment capital (i.e. of private investment and long-term official and bank lending) were the three British Commonwealth countries, Canada, Australia and South Africa. This conclusion, which applies to the total volume of the flows, still holds good on the basis of per capita figures for the receiving countries, except that a few small countries (Ireland, Israel, New Zealand, Panama) also emerge as major beneficiaries. British colonies and French territories in Africa also received substantial amounts per head of the population. In contrast to this, the vast and densely populated areas of the Indian sub-continent and Indonesia received what, in relation to the size of their populations and even in absolute terms, appears to have been only a small trickle of foreign capital. Some countries in these areas were in fact net capital exporters. In the western hemisphere, U.S. capital exports were largely monopolised by Canada and the dollar countries of Latin America, so that the non-dollar countries of Latin America were left in roughly the same position as the Asian countries mentioned above. By and large, private capital appears to have been directed to the countries producing petroleum and other minerals, and official capital has not restored the balance at all by favouring producers of agricultural raw materials and foodstuffs. Within the latter group, producers of semi-luxury foodstuffs (such as coffee and cocoa) and rubber-producing countries can rely on the development of their highly income-elastic exports to provide part of the finance necessary for development, while producers of basic foodstuffs and materials (such as natural textile fibres) are more dependent on capital imports, which so far they have been unable to obtain.

* * *

The liberalisation of intra-European trade suffered a serious setback when France, in June 1957, reverted to quantitative restrictions on all imports. There have, it is true, been other similar setbacks in the course of the last ten years, particularly in 1951 and 1952, when, following the Korea crisis, several countries, including France, Germany and the United Kingdom, found themselves faced with balance-of-payments difficulties and went back on their previous measures of liberalisation. France suspended liberalisation in March 1952 but gradually restored it from October 1953 onwards, until in 1956 it reached 86 per cent. Despite these precedents the restrictive measures now applied by France represent an undeniable

retrogression. They are especially unfortunate in view of the fact that most other countries have in recent years succeeded in maintaining and increasing their liberalisation of trade and payments and that France must prepare to lower its tariff next year within the European Economic Community and to participate in the system of closer economic co-operation which will have to be established with the other O.E.E.C. countries.

At the end of 1957 the overall percentage of intra-European liberalisation was 83, against 89 at the end of 1956, the whole of the decline being due to the French measures. Apart from slight increases in the case of Germany (from 92 to 93 per cent.) and of Norway (from 78 to 81 per cent.), no country had raised its percentage, and the objective set by the O.E.E.C. Council — the raising of the liberalisation percentage in each country to an overall figure of 90 and to a minimum of 75 in each of the three broad categories by the end of 1957 — had not everywhere been achieved. It is clear that every new step is more difficult than the last, especially as most of the restrictions still in force apply to the agricultural sector.

In relation to the dollar area, the overall liberalisation percentage of O.E.E.C. countries rose from 61 in May 1957 to 64 in January 1958, thanks mainly to the great progress achieved by Italy, which was able during that period to increase its percentage from 39 to 68. As in many countries imports of some important agricultural products are still subject to state trading, and as such products account for a large proportion of European imports from the dollar area, the actual level of dollar liberalisation is probably not as high as is suggested by the above figures. On the other hand, a wide range of goods which are, on paper, subject to quantitative restrictions are in fact imported freely.

Since November 1955, invisible transactions between O.E.E.C. member countries, which constitute nearly a quarter of their current payments, have been almost entirely freed from restrictions except in the case of payments relating to film dues, certain types of insurance and transportation. For other categories of transactions minimum allowances have been fixed, the tourist allowance having been raised, as from 1st November 1957, from \$200 to \$275 per person per year.

Formal obligations in respect of capital transactions were entered into for the first time in 1957, though several kinds of transactions had already been freed either unilaterally or in compliance with the Organisation's recommendations. As from December 1957 the member countries have been obliged to free transactions connected with direct long-term investments, to authorise the transfer of sums resulting from the liquidation of direct investments made from that time onwards and to permit the use of blocked funds belonging to non-residents for certain types of investment as well as for current expenditure.

The liberalisation of imports has also been one of the principal aims pursued within the wide framework of G.A.T.T. In 1957, for the first time since 1951, there was a full-scale discussion of the nature and effect of import

restrictions. Two series of consultations, with twenty-one countries in all, took place in connection with the twelfth session, held in October–November 1957, regarding the quantitative restrictions which they maintain in order to safeguard their foreign exchange reserves. It was noted, in particular, that Germany, in view of its strong foreign exchange position, was no longer justified in maintaining restrictions and that the import liberalisation programme submitted by the German delegation at the twelfth session was insufficient to meet the country's obligations under the Agreement. The question was taken up again at the meeting of the Intersessional Committee in April 1958 (attended by representatives of all the contracting parties), which expressed its regret that the German Government had not so far found it possible to abolish its remaining import restrictions and urged it to reconsider its position on this matter. The Intersessional Committee also requested the German Government to report to the thirteenth session (to be held in the autumn of 1958) on what had been done to remove the remaining restrictions and stated that the Contracting Parties might consider at this session the question of possible further action in this case.

Two countries which achieved independence in 1957, Ghana and Malaya, joined G.A.T.T. in the course of the year, bringing its total membership up to thirty-seven. It was decided in the case of Laos and Cambodia, on the one hand, and of Tunisia, on the other, that the Agreement, to which they were parties when members of the French Union, should continue to apply to them for one and two more years respectively. Arrangements were made for Switzerland to conduct tariff negotiations in May 1958 with a view to becoming a contracting party.

The problem of Japan's trade relations with the countries which, under Article XXXV, refuse to grant it the benefit of the most-favoured-nation clause was further considered at the twelfth session. Brazil has now withdrawn its reservation, and a trade agreement concluded in July 1957 between Australia and Japan has in fact removed all licensing and tariff discrimination against Japanese goods, even though Australia is one of the countries which invoked that Article.

* * *

In the unfolding of economic events in western Europe since the war, 1957 may come to be regarded as a turning-point after a decade during which economic integration chiefly took the form of increasing trade liberalisation and currency transferability within a group of seventeen countries linked together in the O.E.E.C. Notwithstanding unfortunate setbacks in certain countries, the process has now reached a stage at which its organic development would seem to necessitate, together with the abolition of the remaining import quotas, an attack on tariffs applying to trade within the group. The European Economic Community (E.E.C.), which was established at the beginning of 1958 by the coming into force of the Rome Treaty, and the proposals for a Free Trade Area represent moves in this direction.

The first set of tariff reductions under the Treaty establishing the European Economic Community will take place on 1st January 1959. Meanwhile, the negotiations between the O.E.E.C. countries for the establishment of a Free Trade Area have continued in Paris. The proponents of the Free Trade Area aimed at reaching an agreement early enough to enable the process of tariff reduction in the Area to start at the same time as and develop in step with that which is to take place in the European Economic Community; but the progress of the negotiations has been slow.

Following the discussion at the February 1957 session of the O.E.E.C. Ministerial Council, three working parties were set up, and at its October meeting the Council took up the matter but did not directly discuss the fundamental issues, on which the differences of opinion were too wide to be bridged by the experts. It declared its determination, however, to set up a Free Trade Area including all O.E.E.C. countries, which would come into being simultaneously with the Economic Community; to improve co-operation and expand trade in the agricultural sector; and to take the interests of the under-developed countries fully into account in establishing the Area. An Intergovernmental Committee (the Maudling Committee) was asked to implement the Council's resolution.

In the course of the Committee's work, the conception of the Free Trade Area has moved nearer to that of the Economic Community in several respects. Differences still persist on some points; however, they sometimes appear to be less important in terms of actual policies than when stated as principles. The disputed points include questions relating to (i) agriculture, (ii) the association of overseas countries, (iii) conditions of competition, and (iv) external tariffs and preferential arrangements.

- (i) In the Rome Treaty the proposals for the liberalisation of trade in manufactured goods are coupled with provisions for a common agricultural policy and a common market for agricultural products. The member countries are free to establish support prices (and accordingly to restrict imports) during the first two stages of the transitional period; thereafter, their continuation will be subject to the approval (by a special majority vote) of the Council. The transition envisaged is one from national to international management of the markets for foodstuffs, rather than from managed to free markets; but the Treaty includes among its policy objectives the raising of agricultural productivity through the optimum use of the factors of production. In the Free Trade Area negotiations, the United Kingdom, in view of its commitments under the Commonwealth preference system, has asked for a waiver should an agreement be reached for the removal of tariffs on foodstuffs within the Area. The United Kingdom is, in fact, the largest importer of food in Europe and from Europe. British imports of foodstuffs from O.E.E.C. countries are liberalised to over 90 per cent. and are partly exempt from duty or subject to moderate rates. In 1956, out of \$4.1 milliard of foodstuffs imported by the United Kingdom, \$1.0 milliard was supplied by western Europe. For Germany the respective figures were \$1.9 and 0.8 milliard. The value of the total food imports of the Six (inclusive of trade within the group) was \$4.8 milliard, of which \$1.6 milliard came from western Europe.

Relative levels of agricultural prices paid to farmers.*

Countries	1952-53	1956-57
	Netherlands = 100	
Denmark	93	92
Ireland	111	93
Belgium	114	99
Netherlands . .	100	100
Austria	117	103
Germany	113	110
France	128	110
Norway	113	116
Italy	135	117
United Kingdom	131	118
Sweden	120	137
Switzerland . . .	175	143

* For standard basket comprising wheat, potatoes, sugar-beet, cattle, pigs, eggs and milk.
Sources: For 1952-53, E.C.E./F.A.O.: Output and expenses of agriculture in some European countries, second report, 1950-53, Geneva, 1955. For 1956-57, the comparative levels have been calculated from price data included in the E.C.E./F.A.O. publication: Prices of agricultural products and fertilizers, 1956-57, Geneva, 1957.

The extent of purely domestic influences, such as government policies and climatic and geographical differences, in the market for foodstuffs in western Europe is shown by the wide range of the average prices (including government subsidies) paid to farmers in the various countries.

In the case of the United Kingdom, the high prices paid to the producers are reconciled with relatively low prices paid by the consumer by means of an extensive system of government subsidies. According to the National Income Blue Book, the gross product of British agriculture at factor cost in 1956 was £795 million, including £254 million of subsidies, which

therefore represented nearly 50 per cent. of market prices. The likely influence of the cheapness of food on the wage level is thus offset, for the employers, by the burden of taxation which makes it possible.

- (ii) The Rome Treaty contains detailed provisions regarding the Development Fund for the financing of investment in the associated overseas countries and territories; it lays down the total amount of the Fund, the size of the national contributions, the countries and territories which the Fund is to serve and the rate at which its resources are to be used over a period of five years. It also provides, on the other hand, for the general abolition of discrimination by the associated countries and territories between the metropolitan country and the other five as regards import tariffs, tenders for contracts and the settlement rights of the nationals of the Six. In the Free Trade Area negotiations, no consensus of opinion appears to have been arrived at so far regarding the position of associated overseas countries and territories.
- (iii) The Rome Treaty makes elaborate provisions for the harmonisation of economic policies and of conditions of competition. In so far as such provisions apply to government action, they are designed to (a) facilitate the resettlement of workers and the reconversion of industry and correct undesirable effects of market forces by regional planning for development, through a Readaptation Fund, an Investment Bank and the Development Fund which has been mentioned above; (b) ensure that the competitive power of the six members, both inside and outside the Community, is not affected by the administration of indirect taxation, of taxation relief and of aid to industry in forms which would imply discrimination in the treatment of domestic and foreign goods. With regard to the conduct of business firms, the Treaty provisions aim at (c) preventing price discrimination and other monopolistic practices and (d) equalising certain elements in the cost of labour, while raising social standards.

The main obstacle to the adoption by a wider association of countries of arrangements similar to those listed under (b) and (c) would seem to lie not so much in their actual content, which is largely a matter of interpretation and will define itself through experience and adaptation to a changing environment, as in the rule which makes their implementation in the Community dependent on a special majority vote. The provisions under (d) concerning certain conditions of labour are more definite. The Six have agreed to introduce a system of equal pay for equal work as between men and women as well as equal paid holidays in all countries. They have agreed to adopt the basis of assessment and rates of pay for overtime obtaining in France in 1956, failing which France will be free to take protective measures in the industries affected. The rule of equal pay for men and women will have a more differential effect on competitive strength than the other two, since the proportion of women employed varies from industry to industry.

- (iv) Disparities in the external tariffs of the participants in the Free Trade Area may distort trade and, when applying to basic materials, may alter the conditions of competition of processing industries inside the Area. Two approaches to the problem have been adopted in the negotiations. At the ministerial level, proposals have been put forward for a partial harmonisation of external tariffs; products included in a "tariff belt" would be exempt from import duties within the Area irrespective of their origin. Such proposals strike at the root of the problem by reducing the opportunities for commodity switching; they cannot, however, put an end to it entirely without changing the nature of the association. The approach adopted by the working parties of trade experts has been to compromise by laying down definitions of origin that would prevent the more serious distortions without depriving the Area of its meaning by imposing severe restrictions on the internal movement of goods. In the case of a number of important materials (included in "List G" in the Rome Treaty) the external duties to be applied by the Six are still to be agreed upon. Should the Six decide on relatively low rates, the danger of distortions would be correspondingly reduced and the verification of origin facilitated.

Whatever may be the level of the external tariffs decided upon, the division of labour within the Area will be accentuated as a result of differences in comparative costs, since several potential members of the Area, such as the Scandinavian countries and Austria, are structural exporters of basic materials and find their main markets within it.

The percentage of the total exports of Denmark, Norway, Sweden, Austria and Switzerland directed to the Area is higher than that for any other of the prospective members; it therefore appears that these five small industrialised countries on the fringe of the Area are commercially integrated with it more closely than the countries belonging to the European Economic Community (see table on the opposite page).

More limited groupings of countries, either intended to exist side by side with the Free Trade Area or to be alternative to it, have been suggested or made the subject of actual negotiations — among them, the inclusion of additional countries in the European Economic Community and the formation

Selected O.E.E.C. countries: Proportion of trade within O.E.E.C. in 1956.

Countries	Trade with O.E.E.C. countries as a percentage of	
	total trade	gross national product
European Economic Community		
Netherlands	51	50
Belgium-Luxemburg	60	36
Germany	54	16
Italy	46	11
France	38	7
Free Trade Area		
Denmark	76	36
Norway	68	32
Sweden	68	27
Austria	65	27
Switzerland	62	29
United Kingdom	27	9

of a Nordic Union comprising the three Scandinavian countries and Finland. In view of this, it is of interest to study where the strongest commercial ties in intra-European trade are to be found. If the analysis is made simply in terms of values, the largest trade currents are obviously found to be those between the big countries. But allowance should be made for the size of the markets, whether this be assessed in terms of population or of income. This has been done in the table on the following page, where eleven developed western European countries are grouped in four trading areas as follows: (i) the European Economic Community, (ii) Scandinavia, (iii) the United

Kingdom, (iv) Austria and Switzerland. Each country's total trade turnover with the remaining ten is shown in the first column. In the case of particularly close trade connections, the actual shares shown in the A columns are larger than the figures in columns B and C (see footnote to the table). The highest trade intensities are found: (a) inside Scandinavia; (b) in various flows of Scandinavian trade, namely with Germany, the United Kingdom and the Benelux countries; (c) in the trade of the Belgium-Luxemburg Economic Union and of the Netherlands with the rest of the European Economic Community (this being partly a reflection of the large volume of trade inside Benelux); (d) in the trade of Switzerland with the Community countries and with Austria; and (e) in the trade of Austria with Germany. It thus appears that some of the most intensive trade currents in western Europe flow across the outer boundary of the Community.

The intensity of the trade of the United Kingdom and France within the group is less than the average, since both countries conduct a high

Selected Commonwealth countries: Trade with the United Kingdom as a percentage of total trade in 1956.

Countries	Imports	Exports
New Zealand . .	54	65
Australia	43	31
Rhodesia	41	56
South Africa . .	32	31
India	26	30
Canada	8	17

proportion of their trade with overseas countries politically associated with them. In the case of the United Kingdom, 46 per cent. of total exports (and 49 per cent. of exports of manufactured goods) were directed in 1956 to Commonwealth countries. The proportion of the latter's trade conducted with the United Kingdom

Trade pattern within a group of eleven* western European countries in 1956.

Country data			Trading areas															
Trade turnover within the group	Population	Gross national product	U.S.\$ million	Countries			European Economic Community			Scandinavia			United Kingdom			Austria and Switzerland		
				A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
U.S.\$ million	million	U.S.\$ milliard		% of trade turnover	% of population	% of G.N.P.	% of trade turnover	% of population	% of G.N.P.	% of trade turnover	% of population	% of G.N.P.	% of trade turnover	% of population	% of G.N.P.	% of trade turnover	% of population	% of G.N.P.
3,704	9.2	10.5	B.L.E.U.	74.0	66.5	59.6	8.9	6.5	8.8	12.0	21.9	26.5	5.1	5.1	5.1			
3,694	44.7	53.1	France	63.9	60.6	49.7	9.8	7.7	11.0	15.0	25.7	33.0	11.3	6.0	6.3			
6,995	52.8	45.8	Germany	53.3	58.9	51.7	21.6	8.0	10.5	8.4	26.8	31.7	16.7	6.3	6.1			
2,279	48.3	22.3	Italy	54.5	59.9	57.2	9.7	7.8	9.3	14.3	26.2	28.1	21.5	6.1	5.4			
4,017	10.9	8.2	Netherlands	67.0	66.3	60.0	11.0	6.5	8.7	17.2	22.0	26.3	4.8	5.2	5.0			
1,705	4.5	4.8	Denmark	44.8	69.1	62.8	16.1	4.5	6.4	36.2	21.4	25.9	2.9	5.0	4.9			
1,304	3.5	4.1	Norway	43.3	68.8	62.6	25.3	4.9	6.7	28.9	21.3	25.8	2.5	5.0	4.9			
2,746	7.3	10.3	Sweden	56.1	69.9	64.3	15.6	3.4	4.1	24.8	21.7	26.5	3.5	5.0	5.1			
4,524	51.5	57.6	United Kingdom	57.5	85.9	82.2	37.0	7.9	11.3	—	—	—	5.5	6.2	6.5			
1,113	7.0	4.2	Austria	81.2	69.8	62.6	4.4	6.4	8.6	6.3	21.7	25.8	8.1	2.1	3.0			
1,953	5.0	6.8	Switzerland	79.6	69.2	63.3	6.7	6.4	8.7	9.1	21.5	26.1	4.6	2.9	1.8			
34,034	244.7	227.7	Total	60.8	67.8	61.5	16.9	6.3	8.4	13.3	21.0	25.3	9.0	4.9	4.8			

* The B.L.E.U. is counted as one country.

Note: Figures under A give the actual share of each one of the four trading areas in the total trade of the individual countries listed with the ten remaining countries in the group, i.e. excluding, in each row, the country listed in the fourth column. Figures under B give the share of each area in the total population of the group and figures under C give the corresponding shares in the total gross national product. The percentages in column A are printed in heavy type when they exceed those in columns B or C by 20 per cent. or more; they are printed in light type when they are lower by 20 per cent. or more than those in columns B or C.

was also very high, except in the case of Canada. Imperial preference is one of the factors influencing the development of Commonwealth trade. It is specially important in certain lines (including textile and engineering products) and in the trade of the United Kingdom with the older Dominions. Its overall effect has, however, declined since 1938 and the share of non-preferential trade (including trade with Europe) in total British trade has been expanding in recent years.

* * *

It appears that the recent change in the economic climate has not yet had any particularly adverse effect on the development of international trade. For several years the economies of the western European countries have been expanding faster than that of the United States and have been subject to stronger inflationary pressures. When, at the end of 1956 and the beginning of 1957, the strains of the Suez crisis were superimposed upon those resulting from the rapid expansion, a dollar shortage seemed to be reappearing. In the latter part of 1957, while the pressure of imports on European foreign payments was relieved owing to the decline in world-market prices and the slackening of the boom, it might have been feared that the development of a recession in the United States would revive the dollar problem owing to its depressing influence on American imports of raw materials and manufactured goods. Contrary to such expectations, the rest of the world again developed a dollar surplus in the last quarter of 1957 and the first months of 1958.

Should a reduction in the flow of dollars occur in the coming months, some of the trade partners of the United States would be faced with important policy decisions. While for several, mainly European, countries a favourable foreign exchange position would make such decisions less urgent, others might be tempted to fall back on the restriction of imports and payments, even if the real root of the trouble were known still to lie, as it has done in the recent past, in the inflationary policies pursued at home.

In such cases, neither a reduction in the flow of dollars nor the maintenance of certain import restrictions even on the part of countries amply supplied with foreign exchange reserves, regrettable though this is, would constitute a valid justification for the introduction of a general system of trade and exchange restrictions as the main method of attacking the problem of external imbalance. The recent experience of France shows that import restrictions offer, at the most, only a breathing-space allowing time for the adoption of re-equilibrating policies of a more basic nature. While in existence they tend, like other kinds of rationing, to aggravate the shortage that led to their imposition.

It is to be hoped that the coming into force of the European Economic Community and the arrangements that will have to be made to link the system of the Six with the other eleven O.E.E.C. countries will provide the institutional framework needed for the abolition of practices which past experience has shown to be ultimately destructive and dangerous, especially for countries that adhere to them too long.

VI. Gold Production and Monetary Reserves.

World gold production (excluding that of the U.S.S.R.) went up again in 1957 for the fourth consecutive year. The increase, of $4\frac{1}{2}$ per cent., was mostly due to the larger output of South Africa. As there were also substantially greater gold sales by the U.S.S.R., the total amount of new gold that came onto the markets increased by $13\frac{1}{2}$ per cent. to \$1,300 million. Of this amount, \$740 million's worth is estimated to have been added to official gold stocks outside the U.S.S.R. and the other eastern European countries, including those of international institutions. Taken by themselves, these figures show a substantial addition to the world supply of international liquidity. However, the U.S. gold stock alone rose by \$799 million, mainly as a result of substantial purchases from the International Monetary Fund.

Other countries and international institutions together therefore lost a little gold in 1957 and their gold and short-term dollar holdings rose by only \$129 million, compared with \$1,531 million in 1956, the reserves of individual countries having increased by \$576 million while those of the international institutions fell by \$447 million. Moreover, the increase which occurred in gold and dollar reserves outside the United States was very unevenly distributed, since five countries alone — Germany, Venezuela, Canada, Italy and Switzerland — gained \$1.9 milliard, so that in the rest of the world taken as a whole there was a substantial loss of reserves, despite the fact that over \$900 million was drawn from the International Monetary Fund. As the five countries mentioned above already possessed adequate reserves in 1956, the effect of developments in 1957 was that the maldistribution of international liquidity became more marked.

In the first four months of 1958, the U.S. gold stock declined by \$815 million, the chief gainers being Belgium, the Netherlands and the United Kingdom, the latter country's central gold and dollar reserves having increased by \$641 million during this period.

On the London market, the price of bar gold was mostly below \$35 per ounce in 1957. During the first months of the year in particular, prices were depressed by substantial sales both by the U.S.S.R. and by certain western European countries. Early in 1958, however, the price rose above par and since the middle of February 1958 has been almost continuously above the Federal Reserve selling price of $\$35.08\frac{3}{4}$. This was the result mainly of the rise in the British reserves, though the virtual absence of Russian sales acted as a force in the same direction. Prices of gold coins on European markets, reversing the trend of 1956, ceased to rise during the period under review and were in some cases lower in dollar terms at the end of 1957 and early in 1958 than they had been a year before.

* * *

World gold production outside the U.S.S.R. in 1957 is estimated to have amounted to 29.7 million ounces, compared with 28.4 million ounces in 1956. This was the fourth successive year in which total output rose and the 1957 figure was 20 per cent. above that for 1953. Once again the South African mines, whose production went up by 1.1 million ounces, were chiefly responsible for the further rise in world output. Production in the rest of the world increased from 12.5 to 12.7 million ounces, the most notable changes as compared with 1956 being an increase of about 24 per cent. to 790,000 ounces in Ghana's output and a decline of nearly 26 per cent. to 325,000 ounces in that of Colombia. Elsewhere, there were slight increases in production in Canada and Australia and a fractional decrease in the United States.

In South Africa the increase in gold production was split almost equally between the Transvaal mines and those of the Orange Free State, whereas in 1956 the increase of 1.3 million ounces had come mostly from the latter

World gold production.

Countries	1929	1940	1946	1950	1954	1955	1956	1957
	weight, in thousands of fine ounces							
Union of South Africa . . .	10,412	14,046	11,927	11,664	13,237	14,601	15,897	17,032
Canada	1,928	5,333	2,849	4,441	4,366	4,542	4,384	4,419
United States	2,045	4,799	1,625	2,375	1,867	1,891	1,838	1,817
Australia	427	1,644	824	870	1,118	1,049	1,030	1,084
Ghana	208	886	586	689	787	688	638	790
Southern Rhodesia	561	826	545	511	536	525	536	537
Philippines	163	1,121	1	334	416	419	406	400*
Belgian Congo	158	562	332	339	365	370	374	371
Mexico	655	883	421	408	387	383	350	343
Colombia	137	632	437	379	377	381	438	325
Japan	335	867	40	156	301	289	295	303
Nicaragua ¹	12	163	204	230	233	229	216	199
India	364	289	132	197	239	211	209	180
Peru	120	281	158	148	147	171	157	150*
Brazil ²	112	150	140	131	120	110	122	120*
Chile	33	335	231	192	125	123	94	100*
Sweden	35	218	91	79	110	99	96	96*
Fiji	—	111	82	103	72	75	67	75
New Guinea	36	295	1	80	86	74	79	70*
New Zealand	120	186	119	77	42	27	26	25*
Total listed	17,861	33,627	20,745	23,403	24,931	26,257	27,252	28,436
Other countries ³	839	3,373	955	1,297	1,169	1,243	1,148	1,264
Estimated world total ³ . .	18,500	37,000	21,700	24,700	26,100	27,500	28,400	29,700*
Value of estimated world total, at \$35 per fine ounce . . .	in millions of U.S. dollars							
	650 ⁴	1,295	760	865	915	960	995	1,040

¹ Exports, representing about 90 per cent. of total.
² Excluding the U.S.S.R.
³ Estimated or provisional figure.

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

group. The extra production in 1957 was achieved despite a fall in the quantity of ore milled from 67.5 to 66.1 million tons. This was because the yield of gold per ton of ore milled was almost 10 per cent. higher than it had been in 1956. As working costs went up by less than 6 per cent., the result was that average profits per ton of ore milled rose by 22 per cent. and slightly exceeded their previous post-war peak, attained in 1950. Total profits also reached a new post-war peak of SA£57.8 million, which was SA£9.3 million more than in the previous year and SA£6.3 million more than in 1950. The increase in profits was reflected in an almost equal rise in dividends paid out by the mining companies. These totalled SA£36.7 million and were 92 per cent. higher than in 1954, when the present period of increased output began. That dividends have risen by 92 per cent. over this period while total profits have gone up by only 51 per cent. has been made possible by the decline in the proportion of profits absorbed by taxation from about 37.5 per cent. in 1954 to about 30 per cent. last year.

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	per ton milled		In millions of tons	in millions of SA£		
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	48.5 ²	16.4	28.2
1957	5.000	62s. 10d.	45s. 4d.	17s. 6d.	66.1	57.8 ²	17.5	36.7

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 amounted to SA£8.1 million in 1954, SA£17.6 million in 1955, SA£24.7 million in 1956 and SA£33.3 million in 1957.

The higher yields of gold from the ore milled and the concomitant increase in profits in recent years have been the result of two factors: firstly, the opening of new mines, especially in the Orange Free State, and, secondly, the fact that, as working costs rise, seams that could previously be worked at a profit have to be abandoned. In many other gold-producing countries it has been the presence of the latter factor and the absence of the former that have accounted for the stagnation or fall in their output during the post-war years.

There remain a number of mines in South Africa where the production of gold is barely profitable or is even being carried on at a loss. The position of the industry in this respect, however, would seem to have improved in 1957. Thus the number of mines producing gold at a loss was seven, compared with nine the year before. If to this group are added those mines where average profits per ton of ore milled were less than 4s., then the marginal producers, so defined, were twenty-one in number last year compared

with twenty-four in 1956 and they accounted for 22.4 per cent. of the Union's total gold output compared with 27.2 per cent. the year before.

Although six of the seven mines producing gold at a loss in 1957 were joint producers of gold and uranium, all but one of the mines with average profits of up to 4s. per ton of ore milled were gold producers only, and many of the gold and uranium-producing mines showed large average profits on gold production. As a result, the average profits of all the mines producing gold only were 12s.3d. per ton of ore milled, while those of the joint gold and uranium producers were 25s.5d. per ton of ore milled.

The decline in the total quantity of ore milled last year was associated with a decrease in the industry's labour force. The average number of native employees at work in the mines during 1957 was, in round figures, 327,700 compared with 329,600 in 1956. European employees averaged 40,900 compared with 42,500.

Total production of uranium oxide in South Africa amounted to 11.4 million lbs in 1957, compared with 8.7 million lbs the year before. Estimated profits earned from uranium production by members of the Transvaal and Orange Free State Chamber of Mines — to which all but a very few small producers belong — increased by 35 per cent. to SA£33.3 million. As already mentioned, many of the joint gold and uranium producers showed quite substantial profits on their gold production alone, and the six mines in this group which produced gold at a loss in 1957 accounted for only 5 per cent. of gold output from all mines and 10.6 per cent. of gold output from uranium-producing mines that are members of the Transvaal and Orange Free State Chamber of Mines.

* * *

The total amount of fresh supplies of gold which came onto the markets during 1957 is estimated to have been worth, at \$35 per fine ounce, some \$1,300 million. Of this, \$1,040 million came from gold production outside the U.S.S.R. and the remaining \$260 million from Russian sales of gold in European markets. This latter figure is necessarily a little conjectural but it is known for certain that Russian sales to the United Kingdom alone amounted in 1957 to \$200 million.* Official gold stocks other than those of the U.S.S.R. and other eastern European countries are estimated to have increased by \$740 million. Both in absolute terms and relative to the volume of fresh supplies this was more than the year before and it was in fact the largest addition to official gold stocks in any one year since the war.

* The figure for Russian gold sales to the United Kingdom was given in the House of Commons in March 1958 by the Chancellor of the Exchequer. At the same time he also stated that total British gold imports during 1957 amounted to \$840 million. On the assumption that all gold sold by the U.S.S.R. to the United Kingdom was physically imported into the country, that leaves a total of \$640 million for all other gold imports. This figure should be compared with the output of the Union of South Africa, which was worth \$556 million in 1956 and \$596 million in 1957. Arrivals of South African gold in the United Kingdom in 1957 were therefore probably somewhere around \$550 million. Gold imports from other sources may thus be tentatively put at about \$100 million.

Estimates of "disappeared gold".

Items ¹	1950	1951	1952	1953	1954	1955	1956	1957
	in millions of U.S. dollars							
Gold production	865	840	870	865	915	960	995	1,040
Sales by the U.S.S.R.	—	—	—	75	75	75	150	260
Less: Increase in official gold reserves	-430	-150	-310	-420	-870	-660	-490	-740
"Disappeared gold"	435	690	560	520	320	375	655	560
Accounted for by								
Industrial uses	180	140	180	170	190	210	240	250
Private hoarding ²	255	550	380	350	130	165	415	310

¹ The figures for gold production and for changes in official gold reserves exclude the U.S.S.R. and after 1951 other eastern European countries also. ² Residual figure.

"Disappeared gold" is therefore estimated at \$560 million; allowing for a demand for gold on the part of industry of about the same order of magnitude as the year before, the residual figure for gold hoarding is substantially less than in 1956.

The most striking thing in the above table is certainly the further sharp increase in Russian gold sales to western countries last year. Exceptional foreign exchange requirements of the U.S.S.R. and, to a greater extent, of other eastern European countries no doubt explain this development. The figures given in the table for the amounts of gold absorbed by industry and private hoarders are very tentative ones. But even if they are treated with all due reserve, it is clear that there must have been a decrease during 1957 in the volume of gold that went into private hoards. This is perhaps to be attributed mainly to a falling-off of European demand; at all events, there was a stabilisation and in some cases a decline in the prices, calculated in dollars, of most gold coins on European markets during the period under review, whereas during 1956 gold-coin prices had risen substantially.

In London, the price of gold bars rose during the period under review from around the Federal Reserve buying price of \$34.91¼ to above its selling price of \$35.08¾. In the early months of 1957 prices had been depressed by the balance-of-payments situations of a number of European countries, together with an unusually heavy volume of sales by the U.S.S.R. In the first quarter of the year, quotations varied by one or two cents on either side of \$34.90. In April they began to rise and had reached a level of just about \$34.94 by the end of May. There followed a sharp increase to \$35.02 on 6th June and from then until the beginning of August prices moved narrowly around, and mostly below, \$35 per fine ounce. In August quotations began to fall again, and a low point was reached late in September around \$34.94¼. By the middle of October the rate had moved up again to par; but this was followed by another decline, and it was not until the last day of the year that the price reached \$35 again.

During most of January 1958 quotations were a little above par and then in the last week of that month there began a new rise which carried



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

the rate to over \$35.08 by 3rd February. A brief reaction followed, but since the middle of that month the price has been almost continuously above the Federal Reserve selling price, and since the end of March prices above \$35.10 have often been quoted.

The high level at which the gold price has been sustained recently in London is the result, principally, of the strength of the pound sterling. Between the end of September 1957 and the end of April 1958 the British gold and dollar reserves rose from \$1,850 million to \$2,914 million. In these circumstances the United Kingdom has been absorbing freshly-mined gold, especially from South Africa, which would otherwise have been offered on the market. In addition, sales of gold by the U.S.S.R. during this period were on a very small scale, whereas they had been very substantial during the winter of 1956-57. Furthermore, the low rates of interest prevailing in the United States may have influenced some other countries with a surplus in their balance of payments to prefer adding gold rather than dollars to their reserves.

* * *

The gold reserves of central banks, governments and international institutions, excluding the U.S.S.R. and other eastern European countries,* are estimated to have increased during 1957 by \$740 million, compared with \$490 million in 1956, and to have amounted at the end of the year to \$39 milliard. One reason for the larger amount of gold that went into official stocks during 1957 was that the total amount of gold coming onto the

* The table of gold reserves on page 159 is a little different from the previous years. This is because the Federal Reserve estimates, on which it is to a considerable extent based, have now been revised, from December 1951 onwards, to exclude, in addition to the U.S.S.R., other eastern European countries as well. The two bottom lines of the table for the years 1938, 1945 and 1950 are therefore not absolutely comparable with those for later years.

markets last year (both from new production outside the U.S.S.R. and from Russian sales) went up to \$1,300 million from \$1,145 million the year before. In addition the amount of gold which went into private hoards was less than in 1956.

The following table gives some details of movements in gold holdings between different parts of the world during each of the past four years. In one important respect, the events of last year were a repetition of those of 1956. There was a further, and larger, rise (\$799 million) in the gold stock of the United States and another, more substantial, fall (\$540 million) in the holdings of international institutions. These two movements were closely connected, since the total of gold sales by the International Monetary Fund to the U.S. Treasury during 1957 was \$600 million, three times as much as in the previous year. Net purchases of gold by the United States from foreign countries amounted to \$172 million, compared with \$80 million in 1956; the principal sellers were the Argentine (\$75 million), Spain (\$32 million) and the Netherlands (\$25 million).

Changes in official gold stocks.

Year	Total	United States	International institutions ¹	Europe (including United Kingdom)	Rest of the world ²
1954	+ 670	- 299	+ 41	+ 851	+ 76
1955	+ 660	- 40	+ 180	+ 412	+ 108
1956	+ 490	+ 305	- 130	+ 380	- 65
1957	+ 740	+ 799	- 540	+ 573	- 92

¹ International Monetary Fund, European Payments Union and Bank for International Settlements.

² Excluding the U.S.S.R. and other eastern European countries.

Gold holdings of European countries, including the United Kingdom, rose by \$573 million in 1957 as against \$380 million in 1956. More than ever, the increase in Germany's gold reserves was the dominating factor. Partly owing to a shift from dollars into gold, it amounted to \$1,048 million, which was not far short of double the figure for 1956 (\$574 million) and was not only much greater than the total rise in both European and world gold reserves but actually exceeded very slightly the estimated total (\$1,040 million) of world gold production in 1957 outside the U.S.S.R.

Apart from Germany, Italy (\$114 million) was the only European country whose gold holdings increased substantially. The rise of \$32 million in Austria's holdings, however, though small in absolute amount, represented an increase of 50 per cent. on the end-1956 figure. On the other hand, the principal loser of gold in Europe was France; the fall of \$286 million in its gold stock represented exactly the amount of the gold loan made in June 1957 by the Bank of France to the Exchange Stabilisation Fund for a period of three years. Sweden, the Netherlands and the United Kingdom reduced their gold holdings in 1957, but in each case the rise in their dollar assets nearly or entirely offset this.

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

Countries or institutions	End of						Change during 1957
	1938	1945	1950	1955	1956	1957	
in millions of U.S. dollars							
European countries							
Germany	29 ¹	0	0	920	1,494	2,542	+ 1,048
Italy	193	24	256	352	338	452	+ 114
Switzerland	701	1,342	1,470	1,597	1,676	1,718	+ 42
Austria	68 ²	0	50	65	65	97	+ 32
Portugal	86	433 ³	192	428	448	461	+ 13
Greece	27	28	2	11	9	13	+ 4
Denmark	53	38	31	31	31	31	0
Finland	26	3	12	35	35	35	0
Iceland	1	1	1	1	1	1	0
Ireland	10	17	17	18	18	18	0
Turkey	29	241	150	144	144	144	0
Norway	84	80	50	45	50	45	- 5
Belgium	780	733	587	929	928	913	- 15
Spain	525 ⁴	110	110	116	116	99	- 27
Sweden	321	482	90	276	266	219	- 47
Netherlands	998	270	311	865	844	744	- 100
United Kingdom ⁵	2,877	1,980	2,900	2,050	1,800	1,600	- 200
France	2,757	1,550	523 ⁶	861 ⁶	861 ⁶	575 ⁶	- 286
Other countries							
United States	14,592	20,083	22,820	21,753	22,058	22,857	+ 799
Venezuela	54	202	373	403	603	719	+ 116
Australia	6	53	88	144	107	126	+ 19
Lebanon	—	2	20	74	77	91	+ 14
Mexico	29	294	208	142	167	180	+ 13
El Salvador	7	13	23	28	28	31	+ 3
Canada	192	361	590	1,141	1,113	1,115	+ 2
Bolivia	3	22	23	0	1	1	0
Brazil	32	354	317	329	324	324	0
Cuba	1	191	271	136	136	136	0
Ecuador	3	21	19	23	22	22	0
Egypt	55	53	97	174	186	188	0
Guatemala	7	29	27	27	27	27	0
India	274	274	247	247	247	247	0
Iran	26	131	140	138	138	138	0
Japan	230	125	128	128	128	128	0
New Zealand	23	23	29	33	33	33	0
Pakistan	—	—	27	48	49	49	0
Thailand	—	86	118	112	112	112	0
Chile	30	82	40	44	46	40	- 6
Indonesia	80	201 ⁷	209	81	45	39	- 6
Uruguay	73	195	236	216	186	180	- 6
Peru	20	28	31	35	35	28	- 7
Union of South Africa	220	914	197	212	224	217	- 7
Belgian Congo	6	16 ¹	23	116	122	81	- 41
Argentina	431	1,197	216	371	214	126	- 88
International institutions							
European Payments Union	—	—	—	244	268	254	- 14
Bank for International Settlements	14	39	167	217	179	165	- 14
International Monetary Fund	—	—	1,494	1,809	1,692	1,180	- 512
Total listed above	25,993	32,321	34,930	37,182	37,693	38,531	+ 838
Other (excl. U.S.S.R. and other eastern European countries)	427 ⁸	1,449 ⁸	880 ⁸	558	517	419	- 98
Estimated world total (excl. U.S.S.R. and other eastern European countries)⁹	26,420⁹	33,770⁹	35,810⁹	37,720	38,210	38,950	+ 740

¹ Pre-war Germany. ² Beginning of March 1938. ³ End of 1946. ⁴ April 1938. ⁵ Beginning with 1945, estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System. ⁶ Reported holdings of the Bank of France only. ⁷ March 1946. ⁸ 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. ⁹ Including eastern European countries other than the U.S.S.R.

In the rest of the world (excluding the U.S.S.R. and other eastern European countries), gold reserves are estimated to have fallen by \$92 million, compared with a decline of \$65 million the year before. Amongst those countries of this group which are shown individually in the table on page 159, the principal changes were a further rise of \$116 million in Venezuela's gold holdings and falls of \$41 million and \$88 million respectively in the gold reserves of the Belgian Congo and the Argentine.

The fall of \$98 million in "other" gold holdings, shown in the bottom line but one of the table on page 159, is the difference between the overall change in gold stocks and the movements in those countries listed individually in the table. As explained in a footnote to the table, the estimated world total of official gold stocks includes, besides the reported holdings of all the countries listed, certain unpublished holdings as well as estimates of official holdings for countries which do not report their gold reserves to the Federal Reserve System. It is the changes in the latter two items during 1957 which are reflected in the fall of \$98 million in "other" official holdings of gold.

During the early months of 1958 the movement of gold into the reserves of the United States was reversed. The total U.S. gold stock decreased during the first quarter of the year by \$370 million; concomitantly, gold held at the Federal Reserve banks under earmark for foreign and international account went up by \$457 million. In April this development became more pronounced; the U.S. gold stock declined by a further \$445 million and gold under earmark rose by \$472 million to a total of \$6,951 million at the end of that month. During the first quarter of 1958, the gold holdings of the United Kingdom rose by \$497 million and those of Belgium and the Netherlands by \$85 million and \$103 million respectively.

The gold and short-term dollar assets of countries other than the United States and of international institutions are estimated to have risen by \$129 million during 1957 to a total of \$31.2 milliard at the end of the year. This was made up of a decline of \$447 million for international institutions and a rise of \$576 million for countries other than the United States. Simply to give the overall movement for the year is, however, misleading: in fact, reserves fell by \$425 million in the first quarter, and rose in each of the other three quarters, the increases being \$175 million, \$47 million and \$332 million respectively.

Holdings of U.S. Government bonds and notes with original currency periods of more than one year, which had declined overall by \$135 million in 1956, fell last year by a further \$42 million to \$1,452 million. If these holdings are taken into account, gold and dollar reserves increased by \$87 million and amounted at the end of 1957 to \$32.7 milliard. The principal changes in bond and note holdings were a decrease of \$169 million in those of international institutions and a rise of \$89 million in those of Canada. Continental western Europe's portfolio increased by \$32 million and

**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	
	1955	1956	1957	1956	1957
	in millions of U.S. dollars				
Continental western Europe					
Austria	326	381	446	+ 35	+ 85
Belgium-Luxemburg ²	1,201	1,227	1,182	+ 26	- 45
Denmark	91	96	143	+ 5	+ 47
Finland	84	88	100	+ 4	+ 12
France ²	1,957 ³	1,505 ³	947 ³	- 452	- 558
Germany	2,374	3,329	4,099	+ 955	+ 770
Greece	187	187	167	0	- 20
Italy	1,137	1,268	1,531	+ 131	+ 263
Netherlands ²	1,100	1,071	1,044	- 29	- 27
Norway	127	117	138	- 10	+ 21
Portugal ²	601	628	651	+ 27	+ 23
Spain ²	221	160	115	- 61	- 45
Sweden	429	483	478	+ 54	- 5
Switzerland	2,354	2,512	2,683	+ 158	+ 171
Turkey	153	164	162	+ 11	- 2
Other holdings ⁴	872	917	850	+ 45	- 67
Total	13,214	14,113	14,736	+ 899	+ 623
Sterling area					
United Kingdom ⁵	2,600	2,812	2,875	+ 212	+ 63
U.K. dependencies	84	103	104	+ 19	+ 1
Australia	219	191	211	- 28	+ 20
India	320	323	329	+ 3	+ 6
South Africa	285	277	255	+ 12	- 22
Rest of sterling area	214	228	224	+ 14	- 4
Total	3,702	3,934	3,998	+ 232	+ 64
Canada	2,173	2,629	2,738	+ 456	+ 109
Latin America	3,789	4,113	4,347	+ 324	+ 234
Asia	2,616	2,795	2,318	+ 179	- 477
All other countries ⁶	381	367	390	- 14	+ 23
Total for all countries	25,875	27,951	28,527	+ 2,076	+ 576
International Institutions ⁷	3,689	3,144	2,697	- 545	- 447
Grand total	29,564	31,095	31,224	+ 1,531	+ 129

¹ Short-term dollar holdings consist of deposits, U. S. Government obligations with original maturities of up to one year and some other short-term paper. They cover both official and private holdings, as reported by selected banks in the United States.

² Including dependencies.

³ Including gold reserves of the Bank of France and French dependencies only.

⁴ 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 certain western European countries.

⁵ Holdings of gold and U.S. dollars based on figures as reported by the British Government.

⁶ Excludes gold reserves of the U.S.S.R. and other eastern European countries.

⁷ Includes the International Bank for Reconstruction and Development, the International Monetary Fund, the United Nations and other international organisations. Excludes the Bank for International Settlements and the European Payments Union, which are included under "Other holdings".

that of the sterling area by \$21 million; Latin America's holdings declined by \$14 million.

For the international institutions - the most important of which in this connection is the International Monetary Fund - 1957 was the second year running in which their gold and dollar assets declined, and in fact the fall (including holdings of U.S. Government bonds and notes) amounted to \$616 million, compared with \$475 million in 1956.

For countries outside the United States last year's reserve developments were different in many respects from those of 1956. Firstly, the overall increase in reserves was both small in itself and very much smaller than the year before. Secondly, outside Europe very few countries indeed increased their gold and dollar reserves; moreover, inside Europe the principal increases accrued to the same countries as in the previous year, countries whose reserves might already have been considered adequate in 1956. Thirdly, the increase of \$576 million in the gold and short-term dollar holdings of countries other than the United States was substantially less than the total of \$913 million which these countries drew from the International Monetary Fund.

In continental western Europe, the increase in gold and short-term dollar holdings was \$623 million. Germany's reserves alone, however, went up by \$770 million. Although the Federal Republic gained somewhat fewer gold and dollars than in 1956, it again increased its reserves by more than did western Europe as a whole. The other principal gainers of reserves in western Europe were, as in 1956, Italy (\$263 million) and Switzerland (\$171 million). Together, these three countries increased their gold and dollar holdings by \$1,204 million.

On the other hand, the principal loss of reserves in Europe was again sustained by France (\$558 million). Practically the whole of this fall took place during the first half of the year, the loss in the second six months being only \$49 million. Other countries which sustained losses included Spain (\$45 million), Belgium-Luxemburg (\$45 million), the Netherlands (\$27 million) and Greece (\$20 million).

The gold and dollar holdings of sterling-area countries rose by only \$64 million, compared with \$232 million in 1956, despite the fact that special additions to the reserves in 1957 were greater than the year before. In 1956 \$561 million had been drawn by the United Kingdom on the International Monetary Fund; last year the United Kingdom borrowed \$250 million from the Export-Import Bank and bought from India the \$200 million which that country drew from the International Monetary Fund. In addition, the central reserves were credited with \$104 million, the amount of the interest payments due in 1956 on the principal post-war U.S. and Canadian loans, which had been temporarily set aside in a suspense account at the end of 1956 while permission to postpone repayment was sought from the two governments. Finally, both the interest and capital payments due on these

loans for 1957, totalling \$176 million, were also postponed. But for all these factors, therefore, U.K. gold and short-term dollar holdings would have decreased by \$667 million during 1957. In fact, in the third quarter alone, during the period of acute tension on the exchange markets, they fell by \$387 million (\$471 million, taking into account holdings of U.S. Government bonds and notes with original maturities of more than one year). During the last three months of the year, however, with the aid of the debt postponement already mentioned, almost all of the third quarter's loss was regained.

The increase of \$234 million in Latin America included a rise of no less than \$490 million in the reserves of Venezuela alone. This occurred principally in the second quarter of the year and was the result of an exceptionally large inflow of capital from the United States connected with investment in the oil industry. Elsewhere in Latin America, reserves fell in the Argentine (\$97 million), Brazil (\$93 million), Chile (\$22 million), Mexico (\$45 million), Peru (\$31 million) and Uruguay (\$24 million).

The fall of \$477 million in the gold and dollar holdings of Asiatic countries was due mainly to a decline of \$437 million in Japan's reserves; this was concentrated in the first half of the year and there was even a slight increase (\$10 million) in the last quarter. Elsewhere in Asia, losses were sustained by the Philippines (\$113 million) and Indonesia (\$41 million).

Complete details of changes in gold and foreign exchange holdings during the first quarter of 1958 are not yet available. Such data as have been published, however, show that many primary-producing countries have suffered further losses of reserves while corresponding gains have been made by industrial countries. In western Europe the countries which added to their reserves during this period were mostly those whose external positions had come under pressure in the course of 1957. In particular, the United Kingdom's official gold and dollar reserves, which had risen by \$423 million in the last quarter of 1957, increased during the first four months of 1958 by a further \$641 million. The reversal of last summer's abnormal movements in reserves, which had begun in the last quarter of 1957, showed some signs of coming to an end from March 1958 onwards as Germany moved into substantial surplus and France into substantial deficit again. In Germany the central gold and foreign exchange reserves, which had declined in the last three months of 1957 by \$157 million, fell during January and February 1958 by a further \$70 million. In March, however, they rose by \$57 million and again in April by a further \$86 million. In France somewhat the opposite development has occurred; according to figures published by the Conseil National du Crédit, the central reserve position improved during the first quarter of 1958 by \$24 million. But this rise was less than half of the \$65 million drawn from the International Monetary Fund and, moreover, the country's monthly external deficits have been increasing since the beginning of the year. In the European Payments Union, for example, France's deficit rose from under \$20 million in December 1957 to over \$50 million in March and April 1958.

Changes in gold and dollar reserves.*

Items	1952	1953	1954	1955	1956	1957	Total
	in millions of U.S. dollars						
Germany	+ 257	+ 534	+ 774	+ 383	+ 961	+ 770	+ 3,679
Venezuela	+ 75	+ 76	+ 3	+ 71	+ 390	+ 489	+ 1,104
Canada	+ 370	- 108	+ 190	- 99	+ 386	+ 198	+ 937
Italy	+ 22	+ 156	+ 114	+ 204	+ 131	+ 263	+ 890
Switzerland	+ 83	+ 75	+ 49	+ 175	+ 245	+ 168	+ 795
Total of above	+ 807	+ 733	+ 1,130	+ 734	+ 2,113	+ 1,888	+ 7,405
Rest of the world	+ 685	+ 1,876	+ 1,086	+ 1,168	- 717	- 1,801	+ 2,299
Total for all countries*	+ 1,492	+ 2,611	+ 2,216	+ 1,902	+ 1,396	+ 87	+ 9,704

* Including international institutions but excluding gold held by the United States, the U.S.S.R. and other eastern European countries. Dollar reserves include, as well as the short-term assets contained in the table on page 161, holdings of longer-term U.S. Government bonds and notes.

An idea of some of the salient features of the distribution of the increase that has taken place in gold and dollar reserves over the past six years may be gained from the above table. Of the total increase during this period of \$9.7 milliard in reserves of countries other than the United States and of international institutions, no less than \$7.4 milliard, or some 76 per cent., accrued to the countries shown individually. Germany's share alone amounted to 38 per cent. of the total increase. Moreover, whereas the five countries as a group substantially increased their reserves in each of the years shown (and what is true of them as a group is true of each one individually, except Canada), during the years 1952-55 the rest of the world's reserves were going up too, and in 1953 and 1955 they increased by more than those of the five countries. This situation, however, changed completely in 1956 and, more particularly, 1957. The reserves of the five countries increased more rapidly than before and simultaneously the rest of the world sustained considerable losses. Indeed, in 1957 the gains and losses of the two groups were almost identical. To the problem of the slowing-down in reserve accumulation by countries other than the United States has therefore been added a problem of maldistribution within this group of countries.

The sterling liabilities of the United Kingdom to other countries (excluding liabilities to international organisations) declined in 1957 by £154 million, almost exactly the same amount by which they had fallen the year before. In contrast to 1956, however, last year it was mainly countries inside the sterling area that drew down their balances.

Sterling held outside the sterling area increased by £3 million in 1957, compared with a decline of £132 million in 1956. This stability was the result of a further decline of £59 million in balances held by "other" non-sterling-area countries, balanced by an increase of £65 million in sterling held by O.E.E.C. countries. Among the "other" non-sterling-area countries, Egypt's central sterling reserves declined by £20 million. The increase in O.E.E.C. countries' balances took place mostly in the second half of the year, when a

United Kingdom: Sterling balances.¹

End of	Non-sterling-area countries					Sterling-area countries ²			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	.	.	2,462	3,694
1951	38	57	409	514	1,018	.	.	2,791	3,809
1952	34	6	239	398	677	.	.	2,542	3,219
1953	62	40	223	370	695	.	.	2,798	3,493
1954	97	8	244	430	779	840	2,084	2,924	3,703
1955	58	9	213	417	697	844	2,035	2,879	3,576
1956	37	32	193	303	565	870	1,986	2,856	3,421
1957	35	31	258	244	568	982	1,617	2,699	3,267

¹ Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £645 million at the end of 1957. ² Figures showing the division of sterling balances between the two groups of sterling-area countries, as at present constituted, are only available from the end of 1954 onwards. This is because Ghana and Malaya ceased to be colonies in 1957.

special deposit of £75 million was made, mainly during the third quarter, by Germany at the Bank of England in respect of future debt payments. But for this transaction, therefore, sterling held outside the sterling area would again have declined last year.

Turning to the sterling-area countries, their balances went up by £69 million in the first half of 1957 and declined by £226 million in the latter half of the year. The sharpness of this contrast is due partly to the drawing of \$200 million from the International Monetary Fund by India during the early months of the year; this sum was sold to the U.K. Exchange Equalisation Account and the counterpart (£71 million) went to increase India's sterling balances. Reserve figures published by individual sterling-area countries show that the biggest changes during the first half of 1957 were in Australia, where the net foreign exchange holdings of the Commonwealth Bank and the commercial banks increased by £110 million, and in India, where the Reserve Bank's sterling balances declined by £57 million.

The very substantial drop in the second half of the year to a considerable extent reflected a further worsening of the Indian position. The Reserve Bank's sterling balances in fact declined by a further £117 million to a total of £223 million at the end of the year. Over the two years 1956-57 the fall was £328 million, after taking credit for the sterling counterpart of the drawing on the Fund.

The rise in Australian balances tapered off towards the end of the year. On the other hand, the Reserve Bank of New Zealand's sterling assets, which had risen from £57 million to £83 million in the first half of the year, declined sharply to £37 million at the end of the year and further to £26 million at the end of February 1958. In South Africa, the foreign assets of the Reserve Bank fell by £17 million in the second half of the year.

International Monetary Fund:
Exchange transactions and stand-by arrangements.

Year or period	Drawings	Repayments ¹	Net drawings ²	Stand-bys		
				Agreed	Drawn or expired	Outstanding at end of period or year
in millions of U.S. dollars						
1947-49. . .	777.2	19.7	757.5	—	—	—
1950-52. . .	119.7	199.6	— 79.9	55.0	—	55.0
1953-55. . .	319.5	762.8	— 443.3	62.5	55.0	62.5
1956	692.6	113.3	579.3	1,077.2	22.4	1,117.3
1957	977.0	63.9	913.1	183.1	430.1	870.3
Total . . .	2,886.0	1,159.3	1,726.7	1,377.8	507.5	870.3

¹ Repurchases and other countries' drawings.

² Drawings less repayments.

For the second year in succession, the International Monetary Fund had a record year of activity. Twenty member countries made drawings totalling \$977 million and ten countries repurchased their currencies to the extent of \$64 million in all. Net drawings thus amounted to \$913 million, compared with \$579 million in 1956.

Out of the total of \$913 million, \$412 million was drawn by Europe, \$325 million by Asia, \$157 million by Latin America and \$19 million by the rest of the world. The largest drawings were those of France (\$263 million) and India (\$200 million). Other substantial drawings were made by Japan (\$125 million), the Argentine (\$75 million), the Netherlands (\$69 million), Belgium (\$50 million), Brazil (\$38 million) and Denmark (\$34 million). With the exception of Belgium (which drew for reasons unconnected with its balance of payments), the Netherlands and Denmark, all the main users of Fund resources mentioned above suffered severe losses of reserves in 1957, despite their recourse to the Fund.

At the end of 1957 the Fund's holdings of gold and convertible currencies amounted to \$2,528 million, compared with \$3,381 million a year previously. Unused stand-by arrangements decreased over the year from \$1,117 million to \$870 million. The principal stand-by commitment of the Fund continued to be the amount of \$739 million placed at the disposal of the United Kingdom in December 1956. In January 1958 the Fund concluded a stand-by arrangement for \$131 million with France, which by the end of March had been drawn on to the extent of \$65 million.

In recent months the international liquidity situation has been the subject of increasing attention and comment. On 15th April 1958 the British Chancellor of the Exchequer said during his budget speech: "I believe that the problem of world liquidity and of ensuring the strongest possible base for the trade of the free world is a matter of increasing importance and urgency. It may well be that a solution can best be found by the steady expansion of institutions such as the International Monetary Fund

Gold, dollar and sterling reserves and world trade turnover.

Items	1938	1948	1951	1954	1955	1956	1957*
	in milliards of U.S. dollars						
Gold and dollar holdings of countries other than the United States and of international institutions .	13.4	17.9	22.1	29.3	31.2	32.6	32.7
U.S. gold stock	14.5	24.4	22.9	21.8	21.8	22.1	22.9
Total sterling balances, including those of international institutions	2.8	15.4	12.3	11.7	11.3	11.5	11.0
Total reserves	30.7	57.7	57.3	62.8	64.3	66.2	66.6
World trade turnover	44.4	114.1	157.9	157.3	173.3	191.7	207.1
Reserves as a percentage of trade	69.1	50.6	36.3	39.9	37.1	34.5	32.2
Total reserves minus U.S. gold stock	16.2	33.3	34.4	41.0	42.5	44.1	43.7
World trade turnover, excluding the United States	38.8	93.4	131.0	131.1	145.3	158.8	172.1
Reserves as a percentage of trade, excluding the United States. . .	41.8	35.7	26.3	31.3	29.2	27.8	25.4

* Provisional. Note: All reserve figures are for ends of years.

and the International Bank. Such a solution would, of course, require the active good will and assistance of the chief creditor countries."

To illustrate this problem with figures is difficult owing to the impossibility of saying exactly how much international liquidity there is in existence at any given moment. The preceding table compares, for a number of years going back to 1938, the total amount of gold, U.S. dollars and sterling held by all countries in the world (other than those of eastern Europe, including the U.S.S.R.) and by international financial institutions with the value of world trade turnover.

The sixth line of the table gives the reserves as a percentage of annual trade turnover. The drop in the percentage between 1938 and 1948 would have been much larger but for the wartime increase in sterling balances. (In 1948 the volume of world trade had just recovered to the rather low level of 1938.) This addition to world liquidity was fortuitous and would not have taken place had it not been for the special circumstances of the war. Although the usefulness of sterling as a means of international payment for countries outside the sterling area was rather limited in 1948 (and for a number of years after), \$9.5 milliard of the sterling balances was held at the end of that year by sterling-area countries, payments between which have throughout the post-war period been substantially (though with some exceptions) free from restrictions.

In 1951 the ratio of reserves to trade dropped sharply, owing in the main to the substantial rise in prices which then occurred. During 1952-54 the percentage increased again, only to fall once more from 1955 onwards to the present figure, which is the lowest since the war. The bottom line of the table shows reserves as a percentage of international trade, but with the United States excluded from consideration. Some of the above remarks apply

here too, but developments in recent years have been more favourable than for the world as a whole, since the figure for 1957 is very little lower than that for 1951.

Adding together gold, dollar and sterling reserves certainly involves some double counting, since the net reserve positions of the United States and the United Kingdom need to be considered. On the other hand, non-resident holdings of some widely usable European currencies (notably the International Monetary Fund's holdings of these currencies) have been omitted in order partially to offset this double counting and also to simplify the table. So far as the net reserve position of the United States is concerned, at the end of 1957 its gold stock amounted to \$22.9 milliard and the short-term liabilities of U.S. banks to foreigners were \$15.1 milliard. Clearly, therefore, the American position, internationally, is at present adequately liquid.

A more detailed picture of the central reserve positions of western European countries at the end of each of the last three years is shown in the table on the following page. The table gives a breakdown of the net reserve positions (including positions in the European Payments Union and in the International Monetary Fund) and of the total reserves and credit facilities available, either actually or potentially,* for use (including all unused resources in the Union or with the Fund). The latter figures omit debtor positions in E.P.U. and negative net positions in the I.M.F. (i.e. where a country has drawn more from the Fund than its gold subscription), since these do not reduce the reserves a country actually has at its disposal.

The countries whose reserves have increased considerably over the period covered by the table are Austria, Denmark, Germany, Italy, Norway and Switzerland. In Denmark and Norway the level of reserves is still quite inadequate, while in the other countries the position is comfortable, and in Germany and Switzerland more than comfortable. In Belgium and the Netherlands reserves were lower at the end of 1957 than they had been two years earlier; in both countries, however, the level of reserves is still satisfactory and has increased during the early months of 1958.

By far the sharpest fall has been in the French reserves, and at the end of 1957 the net reserve position, taking into account debts to the European Payments Union and the International Monetary Fund, was negative. Ignoring liabilities, however, there still remained at France's disposal at that time \$841 million, made up essentially of the Bank of France's gold stock and of France's unused facilities at the Fund. Since then, further credit facilities totalling \$250 million have been obtained from the O.E.E.C.

The United Kingdom's position also deteriorated over the period covered by the table, although it was a little better at the end of 1957 than

* Unused facilities in E.P.U. are available automatically as and when a country runs into deficit, provided it makes the necessary 75 per cent. payments in gold or dollars. Drawings on the I.M.F. are always subject to a decision of the Fund's Board of Executive Directors.

European countries: Reserve positions.

Countries	End of year	Net reserves	Credit granted to (+) or received from (-) E.P.U.	Net I.M.F. position	Net reserves plus or minus positions in E.P.U. and I.M.F.	Credit facilities in		Net reserves plus credit facilities
						E.P.U.	I.M.F.	
in millions of U.S. dollars								
Austria . . .	1955	337	+ 2	13	352	44	63	444
	1956	392	+ 3	13	408	45	63	500
	1957	489	+ 11	13	513	53	63	605
Belgium-Luxemburg	1955	949	+ 173	57	1,179	389	292	1,630
	1956	952	+ 197	57	1,196	403	292	1,647
	1957	1,003	+ 137	7	1,147	353	242	1,598
Denmark . .	1955	104	- 108	7	3	18	75	197
	1956	90	- 92	7	5	34	75	199
	1957	136	- 89	- 26	21	37	43	216
Finland . . .	1955	99	-	1	100	-	39	138
	1956	54	-	6	60	-	44	98
	1957	63	-	10	73	-	48	111
France . . .	1955	2,082	- 139	63	2,006	196	588	2,866
	1956	1,275	- 209	131	1,197	126	656	2,057
	1957	447	- 385	- 131	- 69	-	394	841
Germany . .	1955	2,518	+ 547	83	3,148	847	413	3,778
	1956	3,473	+ 688	83	4,244	988	413	4,874
	1957	4,363	+ 1,010	83	5,456	1,310	413	6,086
Greece . . .	1955	187	-	-	187	-	-	187
	1956	193	-	-	193	-	-	193
	1957	188	- 2	-	186	25	-	213
Italy	1955	1,178	- 174	-	1,004	31	-	1,209
	1956	1,264	- 154	-	1,110	51	-	1,315
	1957	1,496	- 111	-	1,385	94	-	1,590
Netherlands	1955	1,048	+ 178	69	1,295	391	344	1,783
	1956	904	+ 113	69	1,086	326	344	1,574
	1957	953	+ 82	-	1,035	295	275	1,523
Norway . . .	1955	136	- 112	13	37	15	63	214
	1956	157	- 91	13	79	36	63	266
	1957	155	- 77	13	91	50	63	268
Portugal . .	1955	670	-	-	670	42	-	712
	1956	693	-	-	693	42	-	735
	1957	685	-	-	685	42	-	727
Sweden . . .	1955	456	+ 14	25	495	170	125	751
	1956	463	+ 10	25	498	166	125	754
	1957	445	+ 11	25	481	167	125	737
Switzerland.	1955	1,706	+ 109	-	1,815	259	-	1,965
	1956	1,804	+ 76	-	1,880	226	-	2,030
	1957	1,905	+ 18	-	1,923	168	-	2,073
Turkey . . .	1955	- 99	- 30	- 4	- 133	-	39	- 60
	1956	- 60	- 30	- 4	- 94	-	39	- 21
	1957	- 83	- 30	- 11	- 124	-	32	- 51
United Kingdom .	1955	2,120	- 339	236	2,017	336	1,536	3,992
	1956	2,133	- 350	- 329	1,454	325	971	3,429
	1957	2,273	- 382	- 334	1,557	293	966	3,532

Note: 1. Net reserves consist of central-bank or other official holdings, excluding I.M.F. and E.P.U. positions and net of any other foreign exchange liabilities shown in the central bank or other official returns. Figures have been taken from national sources. 2. Net I.M.F. position is gold subscription minus net drawings. 3. Credit facilities in E.P.U. consist of (a) for creditor countries, the total amount of credit granted to the Union plus one-quarter of their quotas as debtors; (b) for debtor countries, one-quarter of whatever remains of their quotas as debtors and/or of any debtor rallowance granted to them. 4. Credit facilities in I.M.F. are calculated by taking the difference between the Fund's actual holding of a country's currency and 200 per cent. of that country's quota, which is the maximum amount of a member's currency that the Fund, in normal circumstances, will hold.

it had been a year earlier. In 1956 the net reserves, taking into account the E.P.U. and I.M.F. positions, had declined by \$563 million, despite a drawing of \$561 million on the Fund; in 1957, with the aid of special receipts and postponements of payments totalling \$730 million (see pages 162-3), they rose by \$103 million. The substantial improvement in the reserve position during the early months of 1958 has to some extent made up for the losses and new debts incurred in the two previous years.

Finland's reserves declined from the end of 1955 until the devaluation of the currency in September 1957, since when there has been some improvement. In Greece, Portugal and Sweden the level of reserves was stable over the period 1956-57; this is also true of Turkey, whose reserves were consistently negative.

The present recession in the United States has given rise to some concern about the ability of other countries to withstand its possible effects on their reserves. Clearly, to the extent that developments in the United States have influenced the course of prices for raw materials, they may have contributed to the difficulties now being experienced by the countries whose external positions depend mainly on the export of one or more of these commodities. In Europe, however, a number of countries have increased their reserves in recent months, while such losses of reserves as have been sustained by other countries in that part of the world have been totally unconnected with events in North America.

While some of the fears expressed about the influence of the U.S. recession have so far not been realised, that does not mean that the current international liquidity situation is satisfactory. There have been many occasions in recent years when individual countries have had to place restrictions on the development of their economies for balance-of-payments reasons. Not infrequently this has been the result of domestic inflation; sometimes, however, such action has been taken because of a deficit on external capital account which itself was partly caused by a low level of reserves. Thus in some cases temporary and relatively slight deficits on current account and in others the existence of large external liabilities have given rise to capital movements which have caused the authorities in the countries concerned to change their policies to an extent which would not have been necessary if they had had larger external reserves at their disposal.

On the other hand, the existence of a comfortable level of reserves, although it provides a cushion against short-term fluctuations in the balance of payments, may lead countries which encounter external difficulties as a result of internal disequilibrium to postpone unduly the taking of corrective action, and in this way there may emerge disparities between their price levels and those of the rest of the world. There seems little doubt, however, that a larger supply of international liquidity, to be made available when needed to meet disequilibrating capital movements or short-term fluctuations in the current balance of payments, would allow many countries a greater degree of flexibility in their policies.

VII. Foreign Exchange.

The most important developments in the field of foreign exchange during the period under review took place in western Europe and they included alterations in exchange rates in two countries. On 12th August 1957 the effective official rate of exchange for the French franc was changed from Fr.fcs 350 to Fr.fcs 420 per U.S. dollar in respect of a wide range of transactions and on 28th October this rate was applied to all transactions on the official market. In Finland the currency was officially devalued on 15th September 1957 from FM 230 to FM 320 per U.S. dollar. The exchange rate adjustment in France was preceded by a suspension of import liberalisation; in Finland it was accompanied by a considerable relaxation of import restrictions.

The de facto devaluation of the French franc took place in the middle of, and indeed brought to a climax, a period of tension on the European exchange markets, the other currencies principally affected being the Deutsche Mark, sterling and the florin. For a short period after the French measures were taken there were some expectations of a further adjustment of exchange rates in Europe. The pressures on their currencies arising from the flow of funds into Germany led the authorities in the United Kingdom and the Netherlands to take decisive measures against speculation, and these were reinforced by the clear statements of the British and German representatives at the annual meeting of the International Monetary Fund towards the end of September that no change would be made in the external value of the pound or the Deutsche Mark. Since then the reserve positions of the Netherlands and, even more, the United Kingdom have improved substantially; the German central-bank reserves declined a little during the last quarter of 1957 and the first two months of 1958 but since then have been increasing again.

Elsewhere in western Europe there has been a certain tightening of the exchange controls in Belgium and an enlargement of the area of transferability of the Dutch florin, the French franc, the Swedish krona, the Danish krone and the Italian lira. In Germany further measures in the direction of exchange freedom, particularly for outward capital movements, have been taken.

In eastern Europe there have been a number of alterations in the rates of exchange applied to non-commercial transactions. In this field, the value of some eastern European currencies has been raised vis-à-vis the rouble and lowered in relation to western currencies.

In Latin America, the external positions of a number of countries were unfavourably affected in 1957, owing partly to domestic conditions and partly to the fall that took place in the prices of many commodities which are exported from that part of the world. In two countries — Colombia and Paraguay — exchange reforms were effected, while in a number of others

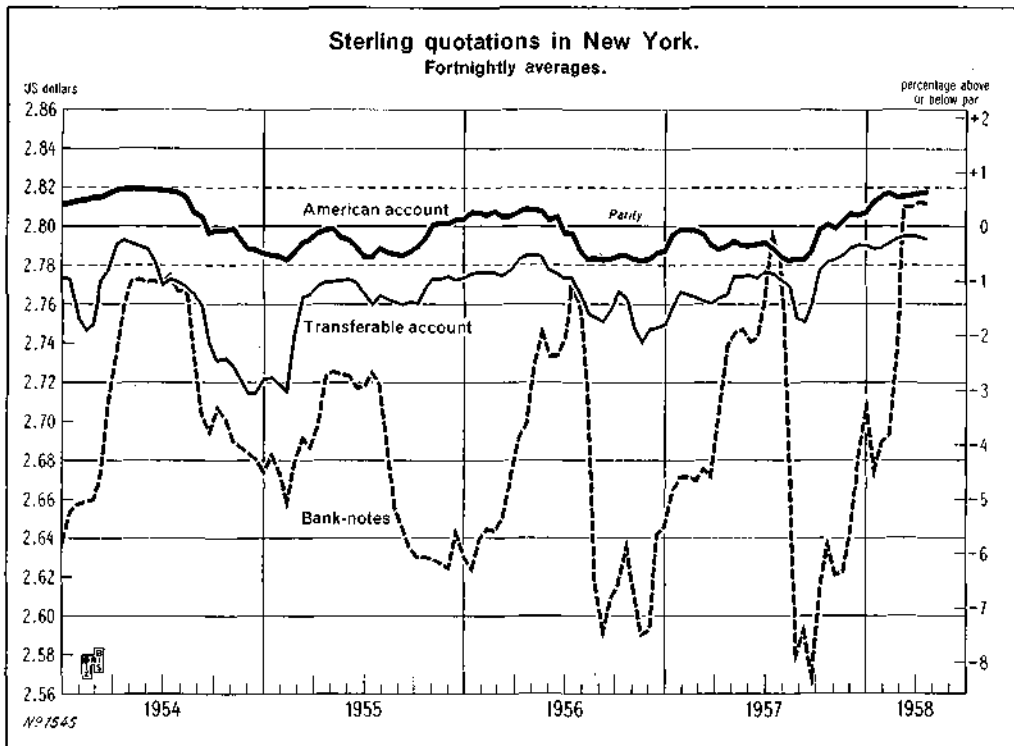
downward changes were made in controlled rates of exchange. The free-market rates for some Latin American currencies also declined during the period under review.

Elsewhere, the exchange rate system of Indonesia has been modified and a new currency — the Sudanese pound — has been introduced to replace the Egyptian pound in the Sudan.

* * *

In the United Kingdom, foreign exchange developments since the beginning of 1957 have been marked by wide fluctuations in the monetary reserves and these movements have been reflected in the course of quotations for the pound sterling on the exchange markets. In addition, a number of changes have been made in the exchange control regulations, some in the direction of greater freedom and others of a restrictive nature.

During the first six months of 1957 the rates for American account sterling did not fluctuate greatly. In January and February quotations moved between \$2.79 and \$2.80, while in the following four months they were mostly nearer the former figure. In the second week of July the rate declined below \$2.79 and by 2nd August it was down to \$2.78 $\frac{1}{4}$. From then until 20th September the pound was under heavy and continuous pressure and massive support had to be given by the authorities, the official gold and dollar reserves falling by \$517 million during August and September. This weakness



may be attributed in part to the usual seasonal trend, but this was overshadowed by other factors. The speculative movement of funds into Germany was the most important of these, but apart from the positive pull of the Deutsche Mark there was a reluctance in some quarters to hold sterling because of what seemed to be the prospect of further inflationary developments in the United Kingdom. Another factor, connected only in part with the previous two, was the reduction in the sterling balances of sterling-area countries, which amounted to £136 million in the third quarter of 1957.

On 19th September Bank rate was raised sharply and it was announced that the government's capital expenditure was to be limited in money terms. Soon afterwards the Chancellor of the Exchequer stated in Washington his determination to maintain the existing rate of exchange. The recovery in the markets was rapid and by 7th October the rate for American account sterling reached par. At the very end of the year quotations reached \$2.81 and by the beginning of February 1958 the rate was as high as \$2.81¾. Between then and the beginning of May it remained almost continuously at or above \$2.81½.

Rates for transferable account sterling have moved to a considerable extent in sympathy with those on the official dollar market. From a low point around \$2.75 at the beginning of the year they rose almost to \$2.78 early in July. A sharp fall began in the second week of August and the lowest quotation during the period of speculative pressure was a little below \$2.75 on 12th September. Rates rose again rapidly following the measures taken in September, and since early in October 1957 transferable sterling has been continuously quoted above \$2.78.

The graph also shows quotations in New York for sterling bank-notes. In February 1958 the previous limit of £10 on the import of notes into the United Kingdom was removed and quotations rose immediately above parity. To complete what has amounted to a virtual unification of the rates for non-resident sterling, quotations for security sterling also have been practically continuously above \$2.78 since February 1958.

Several other measures were taken in the field of exchange control during the period under review. Perhaps the most significant of these was the announcement in July 1957 that U.K. residents could no longer buy foreign securities from residents in other sterling-area countries except with the permission of the exchange control authorities. Although this measure constituted a breach of the general principle of freedom of payments within the sterling area, there were good reasons for taking it. The existence of free exchange markets in some parts of the sterling area on which dollars could be bought with resident sterling was enabling U.K. residents to increase their overall holdings of dollar securities. These transactions, in so far as they took place on the free markets already mentioned, were an involuntary drain on the United Kingdom's reserves, since the non-residents who bought sterling in this way would otherwise have had to use the markets for security,

transferable or American account sterling, on which the demand for the pound against the dollar would then have been correspondingly greater. The immediate effects of this measure were to increase the premium at which dollar securities were quoted in London from $6\frac{1}{4}$ to $10\frac{1}{2}$ per cent. and to raise quotations for security sterling from \$2.63 to \$2.71.

Other exchange control measures taken in 1957 included:

- (i) the extension of the £100 travel allowance for U.K. residents to the countries of the dollar area;
- (ii) the withdrawal in August and September 1957 of certain borrowing facilities in London for non-residents. Sterling credits for merchandise transactions between non-residents were no longer allowed to provide for usance drafts and the granting of refinance facilities to non-residents was stopped; both these methods had been used to borrow money in London for speculative purposes during the exchange crisis;
- (iii) the readmission of Egypt to the transferable account area in May 1957. Existing Egyptian sterling balances remained blocked, but a new transferable account, called No. 1 Special Account, was opened at the Bank of England into which U.K. residents may pay moneys owing in respect of Suez Canal dues.

Foreign exchange policy in France during the period under review was dominated by the continuing loss and subsequent virtual exhaustion of the country's central monetary reserves. In the first half of 1957 recourse was had to restrictions on the use of foreign exchange; when these proved inadequate to control the situation, a de facto devaluation of the franc was put into effect and this was followed by the negotiation of substantial foreign credits.

In February 1957 the foreign travel allowance for French residents was reduced from Fr.fcs 70,000 to Fr.fcs 35,000 and in March certain measures were taken to restrain imports. The validity of import licences was reduced from six months to three; importers were obliged to make 25 per cent. cash deposits at their banks in respect of all imports; and the special compensatory import tax was applied to a wider range of goods than before and its rate standardised at the previous maximum of 15 per cent. At the beginning of June cash-deposit requirements for imports were raised from 25 to 50 per cent. and half of the sums so paid in were transferred to a special account at the Bank of France. On 18th June the liberalisation of imports was entirely suspended.

These measures came too late to prevent the exhaustion of the monetary reserves (except for the gold stock of the Bank of France), including the stand-by credit of \$262 million arranged with the International Monetary Fund in October 1956 and all of the country's credit facilities in the European Payments Union. This point was reached early in August, by which time speculative forces had come powerfully into operation and on 12th August a partial reduction was made in the external value of the franc. The official rates of exchange were not altered but a 20 per cent. surcharge, calculated at

official rates of exchange, was imposed on all external payments (except those for a specified list of imports) and a 20 per cent. premium was paid on all foreign exchange earnings (except for receipts from a specified list of exports). The commodities to which the official rates of exchange continued to apply had accounted in 1956 for about 40 per cent. of total imports to and total exports from countries of the French monetary area.

Simultaneously with the adjustment of the exchange rate, the special temporary tax of 15 per cent. on imports was abolished, together with most of the arrangements whereby exports had benefited from tax rebates and the refunding of social charges. Such arrangements were, however, retained for certain of the commodities, notably textiles, which did not benefit from the new export premiums. The maximum duration of import licences was re-extended to six months and the system of requiring cash deposits from importers was abolished.

The effect of these measures was favourable, but it proved impossible to maintain for long a preferential rate of exchange for selected imports, since this gave rise to speculative purchases of these commodities. With effect from 28th October 1957, therefore, the 20 per cent. surcharges and premiums were applied to all external payments and receipts and at the same time what was still left of the system of tax rebates and refunds of social charges for exporters was done away with. In this way, France reinstated a single effective rate of exchange for all official-market transactions for the first time since 1951, when the export-inducement system was introduced.

The loss of monetary reserves had been so complete, however, that a de facto devaluation of the currency, even combined with the measures of internal policy adopted during the second half of 1957, could not suffice to safeguard the external position. A breathing-space was needed and this was provided by the negotiation in January 1958 of foreign credits and other aid totalling \$655 million. Of this amount \$250 million was furnished by the O.E.E.C. (see Chapter VIII) and \$131 million by the International Monetary Fund. The remaining \$274 million has been provided by the U.S. Government, \$186 million of it by postponing the repayment of post-war debt and the other \$88 million in the form of American military equipment and cotton which will be paid for in francs. Out of the total assistance granted, \$532 million will be available in 1958, a further \$93 million in 1959 and the last \$30 million in 1960.

Early in 1958, some further changes were made in the French exchange control regulations. In March, the percentage of export proceeds which may be credited to E.F.A.C. (Exportation-Frais Accessoires) accounts was increased, for all French firms which either do or promise to export at least 20 per cent. of their output, from 15 to 20 per cent. in respect of sales to the dollar area and from 10 to 15 per cent. for other exports. These accounts are used to finance the cost of business trips outside France, advertising, commissions and the import of certain commodities that cannot be imported in the normal way.

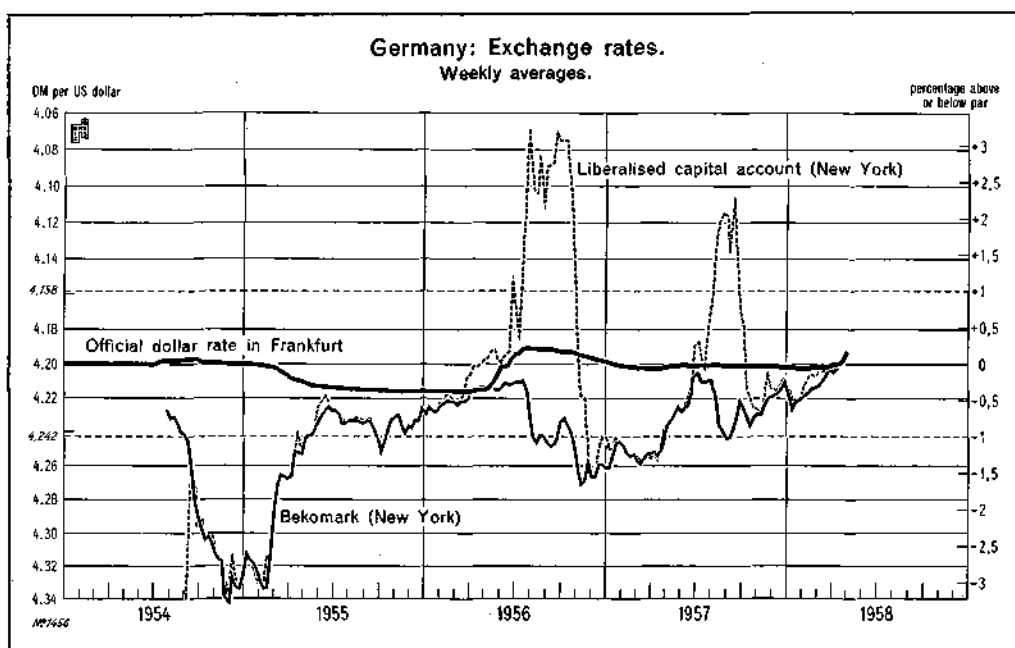
In the same month, the system of franc accounts for non-residents was changed a little. There are now three kinds of current non-resident account. Firstly, free franc accounts for residents in the dollar area. Secondly, franc accounts for residents in countries with which France has bilateral payments agreements. These countries are Chile, Ecuador, Egypt, Finland, Israel, Lebanon, Saudi Arabia, Spain, Syria, Tangier, Uruguay, Yugoslavia, the U.S.S.R. and other eastern European countries. Thirdly, transferable franc accounts for residents of all countries not specifically included in either the dollar area or the bilateral group. Simultaneously, a market in foreign bank-notes was established in France.

In April 1958 two measures favouring foreign tourists in France were introduced. Firstly, foreigners who purchase goods in shops with either dollars or E.P.U. currencies were exempted from paying turnover tax, which varies from 15 to 27 per cent.; later in the month, it was announced that foreigners making payments to travel agencies or hotels in those currencies would benefit from a 10 per cent. reduction in prices.

On 21st May, the allowance of Fr.fcs 35,000 in foreign currency for French tourists going abroad was suppressed. They may still take with them Fr.fcs 20,000 in French bank-notes.

As in 1956, foreign exchange developments in the German Federal Republic last year were the exact opposite of those in France. The country's reserves again increased by more than DM 5 milliard and at the end of 1957 they stood at DM 23 milliard. Again, as in 1956 but on a greater scale than in that year, the second and third quarters of the year saw an increase in the reserves much larger than the current balance-of-payments surplus, which in itself was considerable, while in the last quarter of the year a contrary movement took place.

A clear indication of the abnormal conditions that obtained at various times last year on the exchange markets, but particularly during the third quarter, is given by the size of the discounts at which some other currencies stood in relation to the Deutsche Mark on the three-months forward exchange market. The French franc went from a discount of a little more than 2 per cent. per annum at the beginning of February 1957 to one of over 16 per cent. at the end of May; after a slight recovery in June, the franc weakened again until, just before the exchange rate was altered, the discount early in August was as high as 26½ per cent. and, although it had dropped to about half that figure by the end of September, as late as February 1958 it was still over 9 per cent. Abnormal forward quotations for other currencies against the Deutsche Mark did not start to appear until August 1957. The pound, three months forward, went to a discount of nearly 12 per cent. late in August and the Dutch florin to one of 9½ per cent. at the same time, while even the U.S. dollar stood at a discount of over 4 per cent. per annum in the second week of September. This state of affairs did not last for long, but it was some time into the autumn before the exchange markets returned to more normal conditions.



Note: Liberalised capital marks were introduced on 16th September 1954. Previously these marks were known as Sperrmarks.

By contrast, movements in the spot rates of exchange were very limited, not only where such rates are controlled, but also on the free markets for Bekomarks and liberalised capital (Libka) marks. The official dollar rate in Frankfurt has been held rigidly at or very near to parity throughout the period under review, and rates quoted for the Bekomark have continued to move to a considerable extent in sympathy with those for transferable sterling, to which they are linked by the European arbitrage arrangements. The Libkamark tends to move with the Bekomark, but it is more volatile. This is because only Libkamarks can be used for investment in the Federal Republic and no transfers are allowed to capital accounts from other kinds of non-resident account. When, therefore, a situation such as that of last summer arises, speculative pressure can move the rate for capital marks upward when quotations for Bekomarks are rather limited in their movements by developments in the markets for transferable sterling. In fact, the rise in the value of the Libkamark last year was less pronounced and came to an end sooner than the corresponding movement in 1956.

The remaining exchange control regulations in the Federal Republic have for some time been very liberal. However, a number of further measures of relaxation were taken during the period under review. The most important of these had to do with exports of capital from Germany. Thus, in September 1957 the previous limit of DM 3 million for direct investment abroad in foreign businesses and in subsidiaries of German companies was removed and at the same time such investment was permitted to all German residents, whereas previously it had been limited to businesses only.

Turning to other kinds of investment, in October 1957 it was announced that transactions by residents of the Federal Republic in foreign securities need no longer be carried out through German banks and that residents need no longer deposit their foreign securities with banks. In December 1957, residents were given permission to buy abroad German foreign bonds not quoted on foreign stock exchanges and DM bonds quoted abroad. Finally, residents have since November 1957 been freely allowed to buy and sell real estate in other countries.

For non-residents, certain changes have been made in the rules governing Libka accounts. In August 1957 permission was given for the investment of such balances in non-quoted German securities and at the same time the previous limit of 4½ per cent. chargeable on loans made to residents with capital marks was abolished. Furthermore, the limit of DM 500,000 per annum which had been fixed for the acquisition with Libkamarks of interests in German enterprises and for setting up branches of foreign firms was also done away with. On the other hand, in December 1957 it was ruled that certain payments from residents to non-residents (loans to relatives, maintenance payments, dowries, lottery and other prize-winnings) could no longer be credited to capital accounts and must be made directly to the beneficiaries.

In November 1957 non-residents were given complete freedom to repatriate via the official exchange markets all sums received by them inside the Federal Republic as legacies or inheritances. At the same time as this measure, the previous maximum currency period of 180 days for loans by German banks to non-residents (either in Deutsche Mark or in other currencies) was abolished.

The following table gives details of the amounts held on the different kinds of non-resident DM accounts. During 1954 and 1955 the overall total scarcely changed, although the balances held on current accounts increased. During 1956, however, all the main kinds of account increased, and the overall rise in foreign DM balances was some 41 per cent. Something of the same kind happened in 1957, too, when the overall rise was roughly 22 per cent. Last year, however, there was virtually no overall increase in Bekomark

DM liabilities of German commercial banks to non-residents.

Type of account	1953	1954	1955	1956	1957	1958 (1st quarter)
end-of-period figures, in millions of Deutsche Mark						
DM agreement accounts	252	361	376	531	649	389
Freely convertible DM accounts ¹	3	22	50	74	180	576
Bekomark accounts ¹	52	219	294	506	518	117
Liberalised capital accounts	—	480	402	479	591	578
Sperrmark accounts ²	774	65	5	2	2	1
Total	1,081	1,147	1,127	1,592	1,940	1,661

¹ Until March 1954 these accounts were called "Agents' and representatives' DM accounts". ² Since the end of September 1954, these have consisted solely of time and notice deposits, which, on expiring, are transferred to liberalised capital accounts.

balances. It should be added that it was during the periods of speculation — the third quarter of 1956 and the second and third quarters of 1957 — that the increases in balances occurred. Indeed, during the third quarter of 1957 total non-resident DM balances rose by more than one-half, from DM 1,463 million to DM 2,249 million.

Judging from the figures for 1956 and 1957, it might appear that the Deutsche Mark is beginning to be used as a reserve currency. Since the turn of the year, however, the total of non-resident balances has fallen sharply, so that last year's overall gains have been mostly wiped out. At the same time, however, balances on freely convertible DM accounts have risen considerably, while the Bekomark accounts are at their lowest level since 1954, the year when they were created.

The other country principally involved in last year's exchange crisis was the Netherlands. Between 5th August and 2nd September the central-bank reserves fell by 18 per cent. from \$953 million to \$805 million. On 12th September a drawing of \$69 million was made on the International Monetary Fund and from then onwards the reserves began to go up again, reaching \$1,035 million at the end of the year and \$1,190 million by the end of March 1958.

Before having recourse to the Fund, the Netherlands authorities had taken certain measures designed to stop exchange speculation. On 15th August the general permission for residents to buy and hold E.P.U. currencies was withdrawn and the issue of licences for the purchase of liberalised capital Deutsche Mark with E.P.U. currencies was stopped. On 20th and 22nd August further controls were imposed. The granting of bank credits, either in florins or other currencies, to finance international commercial transactions was subjected to the scrutiny of the authorities in each case. Forward sales of Deutsche Mark to non-residents were prohibited and the general licences permitting banks to discount bills of exchange drawn by non-residents on residents and to open acceptance credits for the account of a non-resident in favour of a resident were withdrawn.

These restrictions were not maintained for long. In October forward sales of Deutsche Mark were allowed again and in November the general licences mentioned above for granting credits to non-residents were restored. In February 1958 banks were again allowed to give credit to non-residents for the financing of international trade transactions; such credits, however, may no longer be granted freely in convertible currencies, as had been the case until August 1957, but only in florins and other E.P.U. currencies.

The transferable florin area (described on page 186 of the Bank's Twenty-seventh Annual Report) was enlarged during the period under review to include Paraguay, Israel, Japan and the Argentine. In addition, Yugoslavia has been able since April 1957 to use freely within the E.P.U. group of countries up to 10 per cent. of its florin earnings from trade with the Netherlands.

In Finland the net foreign assets of the central bank declined during 1956 from FM 22.8 milliard to FM 12.4 milliard and by the end of the first six months of 1957 they were reduced to FM 1.8 milliard. As Finland's price level had for some years been out of line with those of other countries, it became apparent that the existing rate of exchange could no longer be maintained and the currency was devalued on 15th September 1957. The par value declared to the International Monetary Fund was changed from FM 230 to FM 320 = U.S.\$1. The new gold content of the Finnish markka is 0.002 777 10 grammes. The previous official exchange rate of FM 230 = U.S.\$1 had been in force since September 1949. As there had, however, been a system of premiums for certain minor exports and of import surcharges in force since early 1953, multiple rates had in effect existed for merchandise transactions; moreover, there was also a tourist rate, which since December 1955 had been FM 330 = U.S.\$1. At the time of the devaluation last September all these special arrangements were abolished and there is now only one rate of exchange.

At the same time imports from all E.P.U. countries except France, Greece, Iceland, Portugal and Turkey were liberalised to the extent of 78 per cent. calculated on the basis of 1954, and this percentage was subsequently increased in March 1958 to about 82. These countries had already in July 1957 signed a multilateral protocol with Finland under which they agreed to grant Finnish exports "the most liberal treatment possible", that is, the same treatment as they apply to one another. In addition, payments between them and Finland were put (in so far as they were not already) on a multilateral basis, with Finnish residents having the right to transfer earnings in the currency of any one of these countries to any other of them. With effect from 14th March 1958, Portugal became a party to these arrangements.

In December 1957 the liberalisation of imports was extended to most of the countries with which Finland has bilateral payments agreements (Bulgaria, Czechoslovakia, France, eastern Germany, Greece, Hungary, Iceland, Poland, Turkey, the U.S.S.R. and Yugoslavia) and to the dollar area. In both cases the list of goods that may be freely imported is rather smaller than vis-à-vis the countries of western Europe mentioned above, and the dollar-area free list is itself rather more restricted than the one which applies to the bilateral-account countries.

Another measure taken at the same time as the devaluation, in order to try and ensure that its advantages were not forfeited by further unhealthy internal developments, was to oblige exporters, for a period of one year from that date, to pay into special accounts at the Bank of Finland a proportion of the increase in their earnings resulting from the devaluation (see pages 95-96).

As well as the enlargement, already described, of the transferability between non-residents of the French franc and the florin, the usefulness of the Swedish krona, the Danish krone and the Italian lira to non-resident holders has been increased during the period under review.

In Sweden, with effect from 1st January 1958, the classification of the current krona accounts (called "regular" accounts) of non-residents was modified. Until then regular krona accounts had since March 1957 been divided into three groups, those of dollar-area residents, those of residents in countries belonging to the transferable krona area (nearly all E.P.U. countries, plus the Argentine, Japan and Uruguay) and those of residents in all other countries. Balances on regular accounts of dollar-area residents were inter-transferable and could also be transferred to any other regular account; regular accounts of residents in the transferable krona area were also inter-transferable and transfers from them were permitted to any other non-dollar regular account. The new regulations redefine the transferable krona area as consisting of all countries not included in either the dollar area or in the group of countries with which Sweden has bilateral payments agreements. The latter comprises Brazil, Bulgaria, Czechoslovakia, eastern Germany, Greece, Hungary, Poland, Portugal, Roumania, Spain, Turkey and the U.S.S.R., and the regular accounts of residents in these countries are only usable bilaterally.

With effect from 9th May 1958, the system of current non-resident accounts in Denmark was changed. There had previously been three such kinds of account, one for banks (Krone Accounts I), one primarily for commercial firms (Krone Accounts II) and one for insurance companies (Krone Accounts III). The only transfers allowed between accounts of residents in different countries were those between banks in countries which participated in the European arbitrage arrangements, transfers either way between Krone Accounts I and Krone Accounts III of different nationality and transfers from one Krone Account III to another.

The new categories of current accounts in kroner for non-residents are convertible accounts, transferable accounts and bilateral accounts. The first group are for residents in the dollar area, the third group are for residents in Brazil, Bulgaria, Colombia, Czechoslovakia, eastern Germany, Hungary, Israel, Roumania, Spain and the U.S.S.R., while the accounts of residents in all other countries are now transferable accounts. All three types of account may be opened freely in the name of foreign banks and insurance companies; the opening of such accounts for other non-residents is subject to certain conditions and, in the case of a bilateral account, requires special permission. Transfers may be made freely between convertible accounts and from them to transferable or bilateral accounts; there is also complete freedom of transfer from one transferable account to another and from these accounts to bilateral accounts.

In Italy all current non-resident lira accounts, except those of residents in the dollar area, were made intertransferable in February 1957. As a result of measures taken in February and May 1958, freedom of transfer between all capital lira accounts of non-residents, without exception, has now been introduced. Previously the capital accounts of non-residents, known as "conti ordinari", were divided into three groups — those of dollar-area residents,

those of residents in E.P.U. countries and those of residents in all other countries. Within each of the first two groups transfers between different countries were freely permitted, while the accounts in the third group were only usable bilaterally. The "conti ordinari" could be credited with the proceeds of the realisation of investments in Italy and they were usable for investment and, within limits, for living expenses in Italy.

The "conti ordinari" have now been replaced by "conti capitali", transfers between which are completely free. In other ways, too, the possible uses of the new accounts are more extensive than were those of the "conti ordinari". In addition to the uses for which the latter were available, the "conti capitali" may be credited with the proceeds of the sale of foreign bank-notes in Italy and they may be debited for the purchase of foreign bank-notes. They may also be used without limit to pay for living expenses in Italy.

In Belgium there were two developments of note during the period under review. One was the fixing by statute of the gold content of the franc in April 1957 and the other was a certain tightening of the exchange control regulations in October 1957.

Since the war the Belgian franc had had no legal gold content. Under a law of 12th April 1957 the existing de facto gold content of 0.017 773 4 grammes was adopted as the legally defined value of the franc. Any future change would therefore require parliamentary sanction.

The changes in the exchange control regulations in October 1957 were made because of the deterioration of the Belgian position in the European Payments Union. In the years 1955 and 1956 Belgium had surpluses in the Union of \$152 million and \$203 million respectively; in the first ten months of 1957 there was a deficit of \$95 million. The main points of the changes made in the regulations are:

- (i) Belgian export proceeds in E.P.U. currencies may no longer optionally be sold on the free market but must, within eight days of receipt, either be disposed of on the official market or credited to a "commercial" account, that is to say, a resident's foreign exchange account available only for making authorised commercial payments abroad. Furthermore, E.P.U. currencies may no longer be bought on the official market and sold on the free market.
- (ii) Certain restrictions were placed on the uses of non-resident accounts in francs. Transferable accounts and bilateral accounts — that is to say, the current accounts of residents outside the dollar area — may no longer be credited with the value of Belgian bank-notes or the counter-value of foreign bank-notes paid in. Only financial accounts — the non-current accounts of all non-residents — may now be credited in this way. In addition, balances on financial accounts cannot be used to buy E.P.U. currencies or Czechoslovak korunas on the official market, but may be used for currency purchases only on the free market. Finally, transfers between different categories of non-resident accounts are no longer allowed, except for transfers from convertible accounts, which may be made freely to any other kind of non-resident account.

The essential purpose of these changes was to stop movements of E.P.U. currencies from the official market to the free market. The principle is now applied that all E.P.U. currencies earned in current transactions must be sold on the official market; so far as capital imports are concerned, they may take place on either market, while capital exports must go over the free market. Thus the rules applied to E.P.U. currencies have been made the same as those applying to convertible currencies.

In eastern Europe changes have been made in a number of countries in the rates of exchange applied to non-commercial transactions.

In Hungary, with effect from 1st April 1957, a premium of 100 per cent. on the official rate was applied to all non-commercial remittances from western countries. The rate for such transactions has therefore since then been Frt 23.40 = U.S.\$1 and the equivalent in other currencies. Previously, since July 1956, premiums varying from 60 to 100 per cent. on the official rate had been in force for foreign tourists making payments in a certain number of western currencies. On 22nd May 1957 the value of the currency in terms of roubles was raised for non-commercial payments from Frt 296 to Frt 140 = Roubles 100.

On 1st June the value of the Roumanian leu vis-à-vis the rouble was increased for non-commercial payments from Lei 150 to Lei 97 = Roubles 100. A month later, at the beginning of July 1957, the value of the leu in relation to western currencies was lowered by 50 per cent. in respect of expenditure by foreign tourists and delegations, pensions, licence fees, royalties, alimonies, inheritances and the sale of personal effects. The new rates are Lei 12 = U.S.\$1 and the equivalent for other currencies.

Also on 1st July, the value of the Czechoslovak koruna was lowered vis-à-vis certain western currencies and raised in relation to the rouble. For some non-commercial transactions in dollars, sterling and seventeen other western currencies, the rate was changed from Kčs 7.20 to Kčs 14.36 = U.S.\$1 and the equivalent in other currencies. Prior to this, since August 1956 foreign visitors to Czechoslovakia had been able to obtain limited amounts of korunas at one-third of the official rate of Kčs 7.20 = U.S.\$1. The rate for non-commercial transactions with the U.S.S.R. was changed from Kčs 179.46 to Kčs 115.46 = Roubles 100.

In Bulgaria, with effect from 29th July 1957, the value of the lev in relation to western currencies was lowered by 40 per cent. for non-commercial transactions. The new rate for the U.S. dollar is Leva 9.52 = U.S.\$1, compared with the official rate of Leva 6.80 = U.S.\$1.

In eastern Germany a tourist rate, which applies also to virtually all other non-commercial transactions, was introduced in December 1957 for western currencies. For these transactions the value of the east German mark has been almost halved, the dollar rate, for example, being eastern DM 4.20 = U.S.\$1, compared with the commercial rate of eastern DM 2.22 = U.S.\$1. At

various times between April and November 1957 the rates for non-commercial transactions between eastern Germany and some other eastern European countries were altered. Vis-à-vis the U.S.S.R. and Poland, the east German mark is now worth more for non-commercial than for commercial transactions, while in relation to the currencies of Bulgaria, Czechoslovakia and Hungary its value has been lowered by varying amounts.

In Latin America many countries suffered substantial losses of reserves during 1957. To a considerable extent, these were the result of the fall in the prices obtainable on world markets for many of the commodities which are the principal exports of these countries. In some cases, however, where foreign exchange difficulties already existed owing to internal inflation or other weaknesses, recent trends in commodity prices have merely aggravated an already existing disequilibrium. In two countries, Colombia and Paraguay, there have been exchange reforms during the period under review; in others, some relatively minor adjustments in the exchange systems have been made. On the free exchange markets, the value of many Latin American currencies has declined.

In Colombia the exchange rate structure was changed in June 1957. The new system, which was introduced with the approval of the International Monetary Fund, formed part of a comprehensive economic programme designed to put an end to the balance-of-payments difficulties from which the country had been suffering, the most acute of which was the backlog of commercial indebtedness to the United States and a number of other countries, which had been growing continuously since 1954.

Under the previous system there had been two export and four import rates of exchange, while most non-trade transactions took place on the free exchange market. In June 1957 a single fluctuating certificate rate was applied to all trade transactions* and to certain invisible and capital transfers, while all other transactions took place on the free market. All exports, except petroleum, were made subject to a 15 per cent. tax and all imports (except those of machinery and materials for the petroleum and metal-extracting industries) to a 10 per cent. tax. From 25th September 1957 onwards the export tax was reduced to 2 per cent. for all exports, except coffee, bananas and precious metals. The export and import taxes were payable in U.S. dollars or any other currency acceptable to the central bank and were used to pay off the arrears of external debt. At the same time as this new system was introduced, all quantitative import restrictions and stamp taxes on imports (which had ranged from 10 to 90 per cent.) were abolished. A list of prohibited imports was, however, retained. Moreover, importers were required to make peso deposits at the central bank equal to 20 per cent. of their value for certain essential imports and 100 per cent. for all other imports. In connection with the exchange reform, Colombia entered into a one-year stand-by agreement

* This system did not apply fully to coffee exports, any earnings from which in excess of U.S.\$100 per 70-kilogramme sack were eligible for sale on the free market.

with the International Monetary Fund for an amount of \$25 million, to be used to iron out fluctuations in the certificate market.

Following the exchange reform, the first quotations for certificates were Pesos 4.83-4.85 = U.S.\$1, while rates on the free market were Pesos 5.84-5.87 = U.S.\$1. Before long the peso began to weaken and by the middle of December 1957 the certificate rate was Pesos 5.32 = U.S.\$1 and the free rate Pesos 6.17 = U.S.\$1. The downward movement continued during the early months of 1958 and on 30th April 1958 the free rate stood at Pesos 7.55 = U.S.\$1.

With effect from 27th March 1958 some further modifications were made in the system. The central bank now buys all export proceeds at a fixed rate of Pesos 6.10 = U.S.\$1. Coffee exporters must surrender at least U.S.\$85 per 70-kilogramme sack and they also have to deliver free to the National Federation of Coffee Growers an amount of coffee equal to 10 per cent. of the volume of their exports. The previous exchange-certificate market has disappeared and certificates are obtainable only at auctions conducted by the central bank. They are valid for six days, after which they may be resold to the central bank at 10 per cent. below the average price for certificates at the last auction before the day on which they expire. The export and import taxes are unchanged. The free-market rate applies to the same transactions as before, but in addition imports may now optionally be made in this way. At the first auctions on 7th April 1958 the average price paid for exchange certificates was Pesos 6.85 = U.S.\$1.

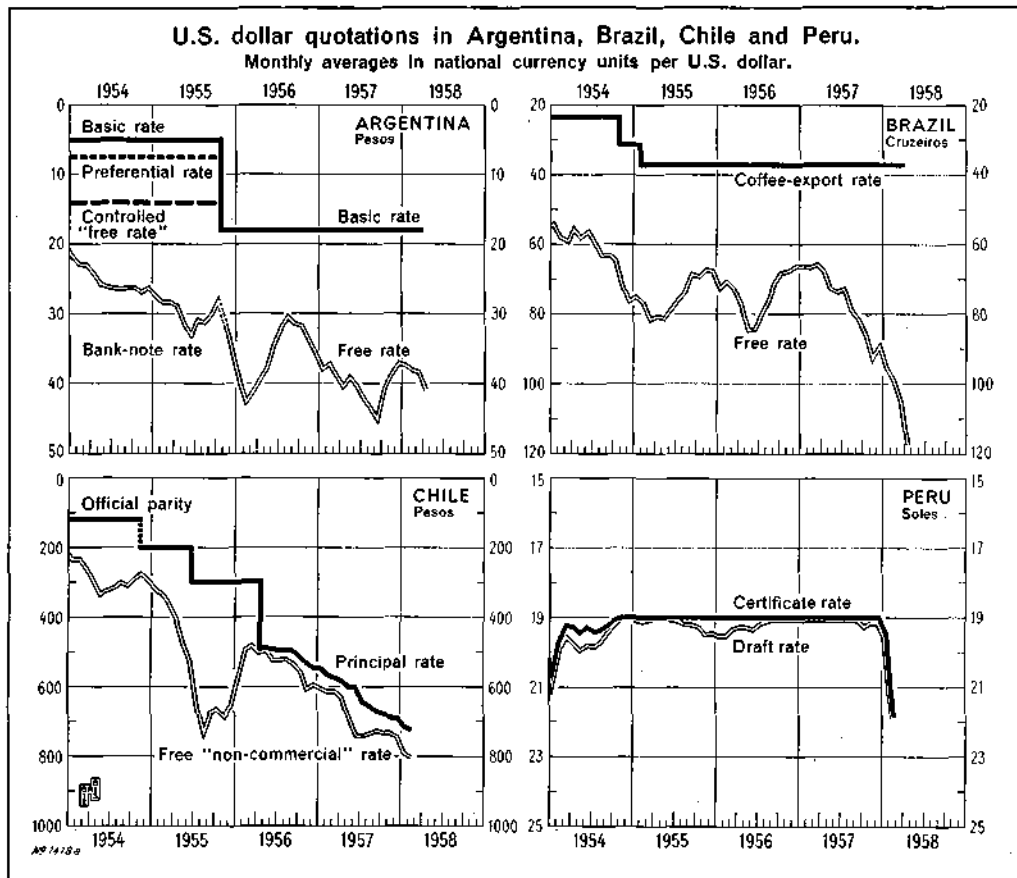
In Paraguay a further simplification of the exchange rate system took place on 12th August 1957. Between March 1956 and that date there had been, in place of the previous complex exchange system, only three rates. The principal one — Guaranies 60 = U.S.\$1 — had applied to all exports, essential imports, some invisible transfers and all government transactions; a rate of Guaranies 85 = U.S.\$1 applied to non-essential imports, and all other transactions took place on the free market. Since last August all exchange transactions have taken place on the free market. There are, however, still two rates of exchange, as all exports are subject to a 15 per cent. tax, which is due to be abolished gradually during 1959. Imports are divided into five categories and prior cash deposits, ranging from 10 to 400 per cent. of the value of the goods, are required from importers. The cash-deposit system does not apply to official or to certain essential private imports. At the end of April 1958 the free rate stood at Guaranies 110 = U.S.\$1.

In Brazil there have been certain modifications in the existing exchange system. On the export side, since 1st July 1957 coffee exporters have received a premium of 1 per cent. on the usual exchange rate (Cruz. 37.06 = U.S.\$1 for convertible and Hague Club currencies and the equivalent of Cruz. 35.55 = U.S.\$1 for other currencies) for coffee produced in the 1957-58 season and sold abroad at U.S.\$43 per sack, plus a further 1 per cent. for each dollar obtained above that price. In the same month, a special export

bonus of Cruz. 36 per dollar was introduced for textile exports; this was counterbalanced by a surcharge of equal amount applied to imports of textile machinery. A similar bonus has been granted to exports of jute and other fibre sacking since October 1957.

On the import side, a new customs tariff was introduced in August 1957 and ad valorem duties were substituted for specific duties. Following this, in September 1957 the system of auctioning foreign exchange for most imports was modified by reducing the number of import categories from five to two. The new "general" category comprises some 90 to 95 per cent. of all goods imported through the auction system. The other, minor, import category at the auctions is the "special" one. A preferential import rate, initially fixed at Cruz. 50.82 = U.S.\$1, was retained for government payments and certain other specific items.

Following the reduction of the number of import categories, effective exchange rates for U.S. dollars were first of all Cruz. 92.8 = U.S.\$1 for "general" and Cruz. 177.7 = U.S.\$1 for "special" imports. In the "general" category there followed an appreciation to Cruz. 82.6 = U.S.\$1 by the middle of December 1957; since then, however, the rate has sagged considerably and it stood at Cruz. 150.7 = U.S.\$1 by the end of March 1958. In the



“special” import category there has been a steady decline in the value of the cruzeiro since it was introduced, from Cruz. 177.7 = U.S.\$1 on 20th September 1957 to Cruz. 353.8 = U.S.\$1 at the end of March 1958. The same developments have occurred in quotations for Hague Club currencies, although these do not command so high a price as the U.S. dollar. On the free market, quotations at the beginning of 1957 had been around Cruz. 65 = U.S.\$1; by the end of the year they had reached Cruz. 90.80 = U.S.\$1, while at the beginning of May 1958 the rate was about Cruz. 122.0 = U.S.\$1.

For the Argentine 1957 was another difficult year, with a continuing deficit on external account and a further substantial decline in monetary reserves despite borrowing from abroad. In April 1957 \$75 million was drawn from the International Monetary Fund and in May a loan of \$56 million was obtained from the U.S. Export-Import Bank for the purchase of vehicles and transport equipment; in September 1957 the amount of this loan was increased to \$85 million.

In these circumstances, recent measures taken by the Argentine in the exchange field have all been designed to save foreign exchange. In April 1957 it was announced that importers would have to make prior deposits at the central bank in respect of all goods imported via the free exchange market (except electricity-generating and industrial machinery). At the beginning of 1958, this system was extended to cover most imports, the rates being 20 per cent. of the value for official-market imports and 100 per cent. for goods imported at the free-market rate of exchange. In the case of goods to which “mixed” rates of exchange apply the rates applicable for the deposits are “mixed” correspondingly. The deposits must be made before the goods are cleared through the customs and are retained for at least 120 days at the central bank. Goods exempt from the deposit system include all official and certain other imports.

In May 1957 permission was given for the import of many kinds of industrial machinery at the free-market rate, provided that credit terms were arranged with the foreign supplier. The minimum credit terms fixed by the Argentine authorities for such imports are four years for goods from neighbouring South American countries and from western or eastern European countries, or Japan, and eight years from countries with freely convertible currencies.

Free-market quotations for the peso, which had started to decline in August 1956 from a high point of Pesos 28.25 = U.S.\$1, deteriorated steadily until a rate of Pesos 40.70 was reached in mid-April 1957. Thereafter a slight recovery took place, but beginning in June the peso declined in value again and the free dollar rose to Pesos 42.65 by the middle of September. The central bank then intervened in the market and by the end of October quotations had recovered to Pesos 39.35 = U.S.\$1 and in mid-December the rate was Pesos 36.55. In the early months of 1958 quotations, though a little lower, were well-maintained, but in March a further decline began and on 2nd May 1958 the free rate stood at Pesos 41.15 = U.S.\$1.

On 25th November 1957 the Paris Club agreements, which had been in provisional operation since July 1956, were finally ratified in Buenos Aires and in March 1958 Germany became the tenth European country to join the club.

Chile's external position was adversely affected by the continued decline in copper prices during 1957, in addition to which the country's internal price level has continued to rise — the increase in 1957 was 18 per cent., compared with 38 per cent. the year before. As a result of these two factors, both the fluctuating rates of exchange have continued to register a fall in the external value of the currency. On 26th December 1957 the central bank's selling rate was Pesos 695 = U.S.\$1; a year earlier it had been Pesos 548 = U.S.\$1. Over the same period the rate for most non-trade transactions moved from Pesos 593 to Pesos 766 = U.S.\$1. At the beginning of 1958, the central bank's selling rate was lowered again to Pesos 717 = U.S.\$1, and by 29th April 1958 it had reached Pesos 761 = U.S.\$1; on 13th May the "non-trade" rate stood at Pesos 1,015 = U.S.\$1.

In August 1957 an external loan of \$40 million was obtained. Of this sum \$15 million was provided by the Federal Reserve System and \$12.5 million each by the International Monetary Fund and the Export-Import Bank. The stabilisation loan of \$75 million which Chile obtained in April 1956, at the time when it simplified its exchange system, was renewed in April 1958 for a further year.

In November 1957 the system of prior deposits at the central bank for imports was strengthened yet again. The maximum rate of deposit is now 1,500 per cent. of the value of the goods, compared with 600 per cent. previously.

In Peru 1957 saw the virtual exhaustion of the monetary reserves and this led to the central bank's ceasing to support the currency in the exchange market. Between the end of June and the end of October 1957 the central bank's gold and dollar holdings declined from U.S.\$35.9 million to U.S.\$8 million. A slight recovery took place in the following two months and at the end of the year the reserves stood at U.S.\$10.6 million. By 21st January 1958 their level had been reduced to a mere U.S.\$5.2 million and two days later the central bank stopped intervening in the exchange certificate market, as it had been doing on and off since October 1954. The certificate rate, which since that date had stood continually at Soles 19 = U.S.\$1, was allowed to find its own level and by the first week in March 1958 it had dropped to Soles 23.70 = U.S.\$1. The free-market rate had already begun to deteriorate a little from September 1957 onwards and had reached Soles 19.07-19.18 = U.S.\$1 by the end of the year. Following the freeing of the certificate rate, the free rate declined to Soles 23.10 = U.S.\$1.

The only direct measures taken by the Peruvian authorities to curb imports were a reduction of the life of exchange certificates from ten to

five days and the raising of customs duties on non-essential imports by amounts varying from 50 to 100 per cent. The stabilisation loan of \$30 million provided early in 1954 by the International Monetary Fund, the U.S. Treasury and a group of American commercial banks and which had been renewed in every subsequent year was replaced by a similar loan of \$60 million in January 1958, provided by the same lenders in the amounts of \$25 million, \$17.5 million and \$17.5 million respectively.

In Indonesia the economic situation continued to be very difficult during the period under review. The foreign exchange reserves had, by April 1957, fallen to such a low level that the government was obliged to put a temporary stop on all imports. In June it became necessary, in order to avoid a slowing-down of economic activity, to lift the ban on imports, and in the same month the exchange rate system was modified in an attempt to ensure that foreign exchange outlays should not exceed the country's external earnings.

Under the previous exchange rate system, which had been in force since September 1956, exporters had received, in addition to the basic buying rate of Rupiahs 11.36 = U.S.\$1, negotiable certificates varying in face value from 2 to 20 per cent. of their earnings. Imports were divided into nine categories and importers had to pay, in addition to the basic selling rate of Rupiahs 11.48 = U.S.\$1, surcharges of up to 400 per cent. in order to obtain foreign exchange. The export certificates were available for purchase by importers of a special extra category of non-essential goods, on which, in addition to the cost of the certificate, a surcharge amounting to 300 per cent. of the basic selling rate of exchange was levied.

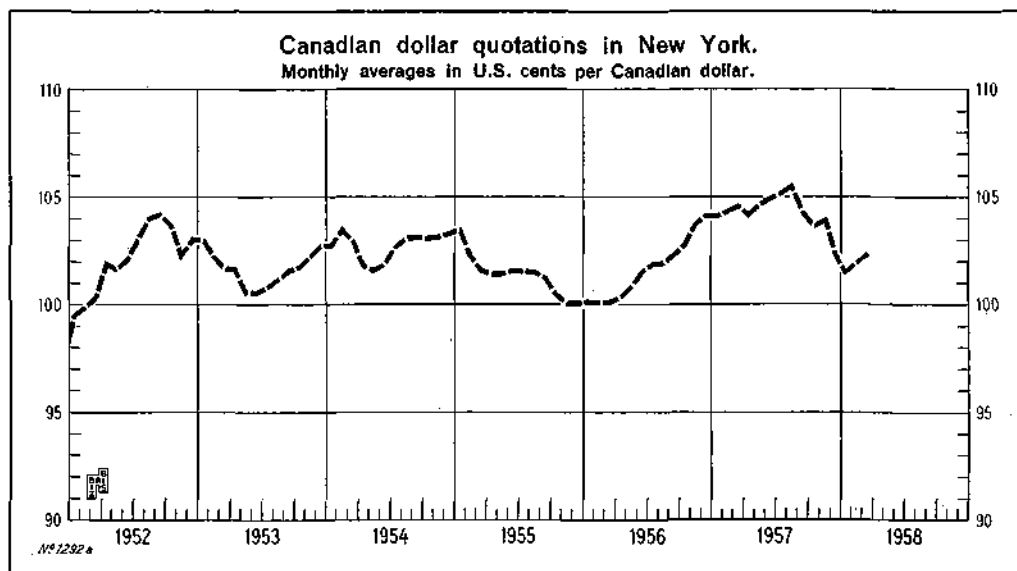
The system introduced in June 1957 reduced the number of exchange rates. Its basic principle is that all foreign exchange transactions take place on the certificate market. All export proceeds and receipts from invisible and capital transactions are converted, after deduction of a 20 per cent. exchange tax calculated at the certificate rate, into exchange certificates; these certificates are then available for purchase by anyone desiring to make payment abroad for any permitted transaction, whether commercial, invisible or capital. Imports are divided into six categories. Goods in the first category may be imported at the certificate rate; the other categories of imports are subject to surcharges ranging from 25 to 175 per cent. There are no surcharges on invisible or capital imports, to which the certificate rate therefore applies.

The effect of these measures has been a further devaluation of the currency. Under the previous system the range of exchange rates was, in the second quarter of 1957, from Rupiahs 11.36 to Rupiahs 57.38 = U.S.\$1. In March 1958 the range of quotations was from Rupiahs 29.3 to Rupiahs 100.6 = U.S.\$1.

With effect from 8th April 1957, the Egyptian currency which had been in circulation in the Sudan was withdrawn and replaced by a new

currency called the Sudanese pound. Its gold content is 2.551 87 grammes, the same as that of the Egyptian pound, and the rate against the dollar is therefore $S\pounds 1 = \text{U.S.}\2.87 .

In Canada the external deficit on current account for the year 1957 as a whole was of the same size as it had been the year before. During the year, however, the rate of deficit decreased very greatly — in the first half it was Can.\$941 million and in the second half only Can.\$442 million. The net inflow of foreign capital into Canada, however, fell away even more, from Can.\$950 million to Can.\$328 million, so that during the period of lower current deficit the country's monetary reserves fell by Can.\$114 million and the Canadian dollar weakened on the exchange markets.



At the beginning and during the early months of 1957 the Canadian dollar was at a premium of about 4 per cent. in New York. The current payments deficit was increasing, but not so fast as foreign investment. The rate continued to strengthen well into the third quarter, until a record premium of just over 6 per cent. on the U.S. dollar was reached on 20th August. By that time the external deficit on current account was declining, but the flow of money into Canada dwindled even more, so that the premium on the U.S. dollar dropped below 5 per cent. early in September and by 4th October was only 3 per cent. The rate then strengthened again until the middle of November, when a fresh decline set in, which brought the premium down to 1 per cent. at the beginning of 1958.

The sharp fall in the capital inflow which led to a weakening of the dollar had two causes. One was the drop in purchases of Canadian securities by foreigners from Can.\$549 million in the first half of 1957 to only Can.\$165 million in the second half. This was due partly to the fact that issues of Canadian securities in New York had been very heavy previously, so that a

pause was needed. But it also reflected the slowing-down of activity in Canada, the fall of prices on Canadian stock exchanges and the narrowing of the interest-rate gap between Canada and the United States. The other cause was a reversal of short-term capital movements (an approximate measure of which is given by the residual item in the Canadian balance of payments) from an inflow of Can.\$217 million in the first half to an outflow of Can.\$155 million in the second half of the year. While the Canadian dollar had been going up, short-term funds had come in, speculating on a further rise; this movement reversed itself in the third quarter, aided by the rise which took place in interest rates in New York.

In the early months of 1958 the Canadian dollar has gradually been rising in value again and by the second week of April the premium in New York was a little over 3 per cent.

* * *

The coming into force of the Rome Treaty for the creation of a European Economic Community consisting of Belgium, France, Germany, Italy, Luxemburg and the Netherlands means that the flow of goods, services and capital between these countries will gradually be freed from almost all the restrictions that are still in force today. This requires the abolition not only of import quotas and tariffs between the six countries, but of controls over payments between them too. Moreover, just as they will have to have common import and tariff policies vis-à-vis the rest of the world, so they will have to bring into line also their at present different regulations governing payments with the rest of the world.

In particular, the treatment of non-resident accounts in the different currencies will have to be standardised. So far as the current accounts of non-residents are concerned, in each of the six countries there is a distinction made between the dollar area and other countries. When it comes to the non-dollar countries, however, there are differences of treatment. In Germany and Italy all these countries are treated as one group and transfers between them are freely permitted. In France, Belgium-Luxemburg and the Netherlands, however, the non-dollar world is divided into two parts, an area of transferability and a group of countries with which payments are on a bilateral basis. These areas of transferability are similar to, but by no means identical with, one another.

So far as non-resident capital accounts are concerned, in Belgium-Luxemburg, Germany and Italy these are all freely inter-transferable between residents of different countries. In France and the Netherlands they are divided into three groups — those of dollar-area residents, those of residents in E.P.U. countries and their monetary areas and those of residents in other countries. Within the first two of these three groups there is freedom of transfer between different countries, while in the third group accounts are on a bilateral basis. In Germany and Belgium-

Luxemburg transfers are freely allowed from capital to current non-resident accounts, except in the case of convertible current accounts; in the other countries, no such transfers are permitted.

Short of the introduction of non-resident convertibility there is therefore still considerable scope for further liberalisation of the regulations governing non-resident accounts in some of the E.E.C. countries. Within the Community itself, current accounts of non-residents are already freely transferable, as are also capital accounts; the distinction between these two kinds of account, however, will have to be done away with if a genuine common market is to be established. In Germany this distinction has already been blurred by allowing transfers from capital to current non-resident accounts, which makes the export (but not the import) of capital by non-residents free. In the other countries, however, where the import of capital is not restricted, non-residents cannot always repatriate their capital at official rates of exchange but sometimes only on the free market by finding another non-resident willing to take it. So far as the regulations governing non-resident accounts in the currencies of members of the Community held by residents of countries outside the Community are concerned, the other four countries will have to realign their policies on those of Germany and Italy, which are the most liberal. This means the abolition of all bilateral accounts and the free transferability of their currencies throughout the non-dollar world, since a country that is part of an area within which payments are absolutely free cannot easily maintain bilateral payments with any part of the outside world if the other members of the area do not do so as well.

One main trend of foreign exchange policy in western Europe as a whole continues to be in the direction of reducing the number of different kinds of non-resident accounts and so the number of different rates at which currencies are quoted. Moreover, these rates are not only fewer in number now but also closer to one another than they used to be; to a large extent this is the natural result of more liberal regulations, assisted, in some cases, by official intervention in the exchange markets.

Considerable progress has therefore been made towards the completely unified exchange rate system which would obtain under conditions of full convertibility for current and capital transactions, although where access to the foreign exchange market is still limited to an extent that materially distorts the real supply/demand situation of a currency the rates cannot be said to reflect a true state of equilibrium. In general, the multilateralisation of payments has been taken further than the liberalisation of the underlying transactions and the remaining restrictions on foreign payments are not reflected to any considerable extent in multiple rates of exchange.

The distorting effect which bilateral credit margins exerted on the flows of trade under clearing and other bilateral credit arrangements has also been removed to a large extent by the E.P.U. system. So long as foreign trade was to a substantial extent in the hands of governments (as it was in

the early post-war years) or regulated by licences (as it still was when the system of drawing rights was introduced), purchases could be, and to some extent were, directed according to the availability of credit. The multilateral inter-governmental credit facilities which exist today (as in the E.P.U.), however, do not lead to artificial and uneconomic patterns of trade, since the possible sources of supply are thereby greatly enlarged and the choice of suppliers is left to private importers, who do not directly benefit from such arrangements.

The payments arrangements which exist in Europe today, therefore, although they do not permit of the free convertibility of one currency into all other currencies at official rates of exchange, are not the main barrier to a more liberal flow of goods, services and capital between countries. It is rather in a further reduction of the controls still maintained over the transactions that give rise to payments between different countries that the main line of advance towards convertibility in Europe must now be sought.

Official currency values — Middle of May 1958.¹

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
Europe					
Albania	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria	Schilling	.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	.130667	6.80	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	.00277710	320.—	896.—	IMF parity since 15th Sept. 1957.
France	Franc	—	350.— ³	980.— ³	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.—	Rates fixed on 18th Sept. 1949.
Italy	Lira	—	624.91	1,749.75	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.— ²	140.—	IMF parity since 22nd Sept. 1949.
Netherlands	Guilder	.233861	3.80 ²	10.64	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286 ²	20.—	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222166	4.—	11.20	Rates fixed on 30th Oct. 1950.
Portugal	Escudo	—	28.75 ²	80.50	Rates fixed on 21st Sept. 1949.
Roumania	Leu	.148112	6.—	16.60	Rates fixed on 1st February 1954.
Spain	Peseta	—	42.135	118.10	Basic rates 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 parity.
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	—	⁴	⁴	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.
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 5th Oct. 1953.
Colombia	Peso	.455733	1.94998	5.459944	IMF parity since 17th Dec. 1948.

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 Plus 20 per cent.

⁴ Market rates in the middle of May 1958 were U.S.\$1 = Can.\$ 0.9671 and £1 = Can.\$ 2.7244.

Official currency values - Middle of May 1958 (continued).

Countries	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
			equals		
South America (continued)					
Ecuador	Sucre	.0592447	15.—	42.—	IMF parity since 1st Dec. 1950.
Paraguay	Guarani	.0148112	60.—	168.—	IMF parity since 1st March 1956.
Peru	Sol	—	1	1	No IMF parity fixed.
Uruguay	Peso	—	1.519-2.10	4.25-5.66	Official basic buying and selling rates since 15th Sept. 1955.
Venezuela	Bolivar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Egypt	Pound	2.55187	.348242	.975079	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956516	IMF parity since 18th Dec. 1946.
Federation of Rhodesia and Nyasaland	Pound	2.48828	.357143	1.—	Official parity since 19th September 1949.
Liberia	Dollar	.889671	1.—	2.80	Parity with the U.S. dollar since 1st January 1944.
Libya	Pound	—	2.80	1.—	Official rates since 24th March 1952.
Morocco	Franc	—	350.— ²	980.— ²	No IMF parity fixed.
Sudan	Pound	2.55187	.348242	.975078	Official parity since 8th April 1957.
Tunisia	Franc	—	350.— ²	980.— ²	No IMF parity fixed.
Union of South Africa	Pound	2.48828	.357143	1.—	IMF parity since 18th Sept. 1949.
Asia					
Afghanistan	Afghani	—	20.—	56.—	Official basic rates.
Burma	Kyat	.186621	4.7619	13%	IMF parity since 7th August 1953.
Cambodia	Real	.0253905	35.—	98.—	Official parity since 26th March 1956.
Ceylon	Rupee	.186621	4.7619	13%	IMF parity since 16th January 1952.
China	Yen Min Piao	—	2.46	6.893	Official rates since 1st March 1955.
India ³	Rupee	.186621	4.7619	13%	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	11.40	31.92	Basic rates since 4th Feb. 1952.
Iran	Rial	.0117316	75.75	212.10	IMF parity since 22nd 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 (North)	Won	—	120.—	336.—	Calculated over parity with Rouble (Won 100 = Roubles 3.33).
Korea (South)	Hwan	—	500.—	1,400.—	Official rates since 15th Aug. 1955.
Laos	Kip	—	35.—	98.—	Official parity since 10th May 1953.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Malaya	Dollar	.290289	3.061	8.571	Official parity since 19th September 1949.
Pakistan	Rupee	.186621	4.7619	13%	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.
Taiwan	Dollar	—	24.68	69.10	Basic middle rates since 12th April 1958.
Thailand	Baht	.0444335	20.—	56.—	Official parity since 18th March 1955.
Vietnam (North)	Dong	—	2,941.176	8,235.293	Calculated over parity with Rouble (Dong 1,000 = Roubles 1.36).
Vietnam (South)	Piastre	—	35.—	98.—	Official rates since 10th May 1953.
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 Rates in the certificate market on 9th April 1958 were Soles 22.90 = U.S.\$1 and Soles 64.00 = £1.² Plus 20 per cent.³ 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 to March 1957; the narrative is continued in the present chapter, which deals with the prolongation of the Union after June 1957, the operations up to March 1958 and the financial position of the Union in the spring of this year.

I. Prolongation of the Union after June 1957.

By a Decision of the Council of the Organisation for European Economic Co-operation, taken on 28th June 1957, the life of the Union was extended for a further year from 1st July 1957; 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 did not undergo any important change as a result of the renewal; a number of additional bilateral amortisation and repayment agreements were concluded, some new credit facilities were opened, and the availability of a special credit, on which no drawings had been made, was terminated, 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.

Bilateral repayment and amortisation agreements, additional to those previously concluded, were negotiated between two debtor countries and two creditor countries; three new agreements which came into force with effect from 1st July 1957 cover the bilateral repayment of claims and debts amounting to \$125 million.* These agreements, like those of 1956, are basically the same as those concluded in 1954 when such agreements were made for the first time; in each relationship provision is made for an initial cash payment and for the amortisation of the balance over a period of years. As regards their detailed provisions, however, the example was set rather by the agreements of 1956 than by those of 1954: in 1954 the initial cash repayments were at least 25 per cent. of the total amounts dealt with; in 1956 the proportion varied from 10 to 25 per cent.; under the latest agreements only 10 per cent. of the total amounts were repaid in cash. The period of amortisation is short, as under the 1956 agreements; it is six years in the relationships Italy-Belgium and Italy-Germany, and four for United Kingdom-Belgium. Payments of amortisation instalments under the new agreements are made by Italy quarterly and by the United Kingdom monthly.

* 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.

E.P.U.: Bilateral agreements concluded on the renewal of the Union,
July 1957.

Member countries		Amounts subject to bilateral agreements		
Debtors	Creditors	Cash payments	Amortisation instalments	Totals
in millions of units of account				
Italy	Belgium	4	36	40
Italy	Germany	7.5	67.5	75
United Kingdom	Belgium	1	9	10
Total		12.5	112.5	125

Note: In addition to those shown in the table, a further agreement between the United Kingdom and Germany, covering \$105 million, was negotiated in July 1957 (see text).

It is to be noted that the totals subject to new agreements in the relationships Italy-Belgium and Italy-Germany include amounts of \$8 and 36 million, respectively, still to be paid under the agreements previously in force.

The new agreement between the United Kingdom and Germany (mentioned in the footnote to the table), which was concluded after the renewal of the Union, provides for the amortisation of an additional amount of \$105 million from 1st August 1959; this will comprise five annual instalments of \$21 million each to be paid by the United Kingdom. The agreement supplements that of 1954, under which an instalment of \$21 million was paid on 1st August 1957 and another instalment, of the same amount, is to be paid on 1st August 1958.

The "rallonges" (facilities for the settlement of surpluses and deficits beyond the quotas) of two creditor countries, Belgium and Switzerland (\$100 and 250 million respectively), which had been determined in July 1956, were renewed for a further year to 30th June 1958; for Germany an "open-end" rallonge (without limit as to amount) had been established in November 1956 and this was also renewed without change.

The rallonges of debtor countries were continued and for France additional settlement facilities of \$200 million, made available retrospectively for the operations for June 1957, were established for the year to 30th June 1958; the credit of \$50 million thus provided, bearing interest at 3½ per cent. per annum, was entirely utilised (except for the periodic reopening of credit by means of bilateral repayments) with the completion of the operations for July 1957.

Greece's debtor quota had hitherto been blocked and Greece had settled its cumulative net deficit fully in gold; it was decided that, from 1st July 1957, this quota (\$108 million) would be fully available for the settlement of Greece's monthly positions.

At the request of the Italian Government the special credit facilities of \$50 million established in favour of Italy since 1st August 1955 and available until 1st July 1958 were terminated from 1st July 1957; no drawings had been made.

2. The operations up to March 1958.

The following paragraphs give the main facts concerning the compensations, the settlement mechanism and the current affairs of the Union.

A. THE COMPENSATIONS.

The statistics in the table are on a monthly basis and the net figures do not include interest on credits granted and received, which is paid by adjustment of the net positions each June and December.

During the ninety-three months' life of the Union up to March 1958, the gross bilateral surpluses (equal, of course, to the gross bilateral deficits) totalled the equivalent of \$21.3 milliard in the national currencies of member countries; of this amount \$15.8 milliard, i.e. 74 per cent., had been compensated in the operations of the Union, leaving \$5.5 milliard, being the cumulative net surpluses (and deficits) to be dealt with by the settlement mechanism of the Union.

E.P.U.: Compensation mechanism — January 1957 to March 1958.*

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 1956 . .	17,165	7,593	5,321	12,914	4,251
1957 January	249	80	71	151	98
February	217	57	56	112	104
March	283	112	40	152	111
April	293	120	76	196	97
May	251	95	26	121	130
June	232	74	44	118	114
July	330	81	95	177	153
August	492	125	189	314	178
September	455	180	54	234	221
October	256	157	91	248	8
November	313	197	88	286	27
December	210	81	119	200	11
1958 January	144	70	56	126	18
February	251	68	269	337	(-86)
March	190	80	68	148	41
Totals to March 1958	21,309	9,170	6,663	15,833	5,476

* Earlier figures are given in the Twenty-seventh and previous Annual Reports, which contain detailed footnotes to this and other tables.

The year 1957 began with a level of gross bilateral surpluses (and deficits) considerably higher than the monthly average for 1956 (\$194 million); after reaching \$293 million in April and then falling slightly, the monthly figures rose after June to the high peak of \$492 million in August; since then there has been a decline but they remained high until December 1957. Owing to the reductions in some countries' positions in February 1958 (notably those of

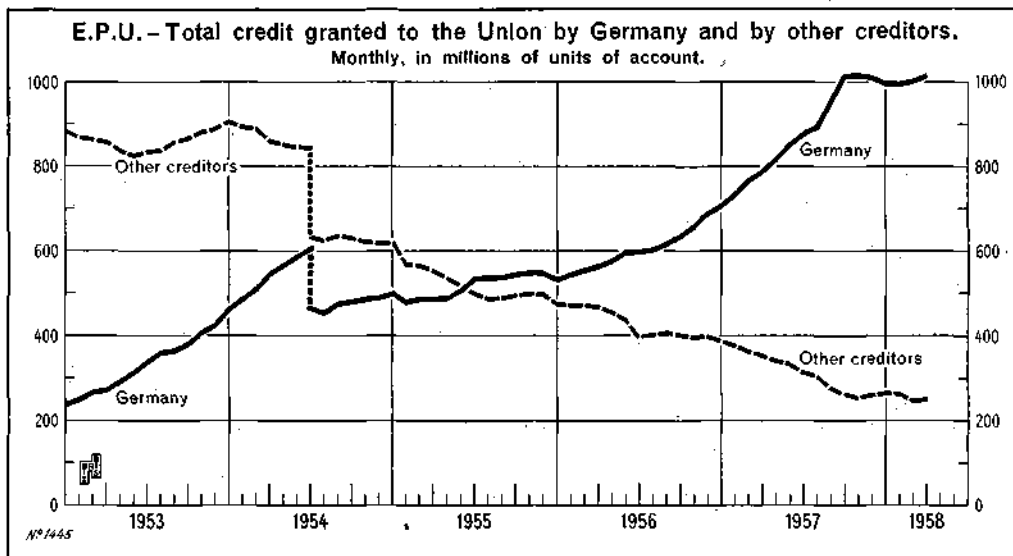
the United Kingdom, the Netherlands and Switzerland), the net monthly position remaining for settlement is shown in the table as a minus amount.

B. THE SETTLEMENT MECHANISM.

All settlements within the quotas and 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. The tables on the following page illustrate the operation of the settlement mechanism over the past fifteen months on a cumulative basis (including interest in the net positions).

In the year ended March 1958, the cumulative net surpluses and deficits increased by nearly \$950 million; the cumulative accounting surpluses rose, however, by less than half this amount and the cumulative accounting deficits by little more than a quarter. The main reason for these differences was the bilateral repayment of credit amounting to \$152 million during the year; credit in the Union on both sides is reduced by this amount and the accounting positions by four times, i.e. \$608 million, the adjustment being made in order that the accounting positions shall remain at four times the amount of ordinary credit in the Union. The chief cause of the smaller increase of the accounting deficits is the fact that from July to December 1957 France paid one hundred per cent. gold (above the quota and rallonge at that time), amounting to \$136 million; this being a pre-quota settlement under Article 10 bis did not increase the cumulative accounting deficit.

When the special credit was granted to France (see page 201) this \$136 million was made irrevocable and transferred in the Union's books to the general total of "ante-quota settlements and adjustments" (as reflected in the table). There remained \$196 million previously paid by France and over \$5 million paid by Greece, which make up the total of \$202 million paid by debtors under Article 10 bis up to January 1958. The movement of this item (both for creditors and debtors) in February and March 1958 reflects drawings on the special credits granted by and to the Union, which also affect the items "actual payments" in gold (but not the cumulative accounting positions).



**E.P.U.: Settlement mechanism — cumulative surpluses and deficits,
January 1957 to March 1958.**

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	Settlements under Art.10 bis		Credit within and outside quotas	Gold Actual payments	Gold Adjustments
in millions of units of account								
1957								
January . .	4,481	— 201	+ 127	—	4,407	1,102	2,617	+ 689
February . .	4,585	— 211	+ 98	—	4,473	1,118	2,688	+ 667
March . . .	4,696	— 212	+ 45	—	4,529	1,132	2,770	+ 627
April . . .	4,793	— 218	+ 16	—	4,591	1,148	2,838	+ 605
May	4,923	— 216	— 13	—	4,693	1,173	2,937	+ 593
June	5,053	— 192	— 89	—	4,773	1,183	3,053	+ 527
July	5,207	— 175	— 233	—	4,799	1,200	3,181	+ 419
August . . .	5,384	— 163	— 277	—	4,845	1,236	3,323	+ 386
September .	5,606	— 168	— 335	—	5,109	1,276	3,485	+ 342
October . .	5,614	— 157	— 365	—	5,092	1,273	3,499	+ 319
November .	5,641	— 163	— 395	—	5,082	1,271	3,515	+ 297
December .	5,669	— 170	— 453	—	5,046	1,262	3,531	+ 254
1958								
January . .	5,687	— 178	— 483	—	5,026	1,257	3,539	+ 231
February . .	5,601	— 183	— 474	— 14	4,931	1,233	3,474	+ 224
March . . .	5,643	— 190	— 485	— 29	4,939	1,235	3,503	+ 202

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	Settlements under Art.10 bis		Credit within and outside quotas	Gold Actual payments	Gold Adjustments
in millions of units of account								
1957								
January . .	4,477	— 407	+ 354	— 196	4,227	973	2,339	+ 915
February . .	4,581	— 417	+ 325	— 196	4,293	987	2,413	+ 893
March . . .	4,692	— 418	+ 271	— 196	4,349	998	2,498	+ 853
April . . .	4,789	— 424	+ 242	— 196	4,411	1,011	2,569	+ 831
May	4,918	— 422	+ 213	— 201	4,509	1,031	2,668	+ 810
June	5,048	— 407	+ 138	— 202	4,577	1,045	2,779	+ 753
July	5,202	— 391	— 6	— 215	4,590	1,047	2,898	+ 645
August . . .	5,379	— 379	— 50	— 254	4,696	1,071	3,013	+ 612
September .	5,600	— 384	— 108	— 276	4,833	1,103	3,161	+ 569
October . .	5,609	— 373	— 138	— 306	4,791	1,090	3,155	+ 548
November .	5,638	— 379	— 169	— 328	4,760	1,081	3,156	+ 523
December .	5,663	— 386	— 226	— 339	4,713	1,067	3,166	+ 480
1958								
January . .	5,681	— 530	— 256	— 202	4,693	1,058	3,177	+ 458
February . .	5,595	— 535	— 243	— 220	4,598	1,026	3,117	+ 455
March . . .	5,636	— 542	— 250	— 239	4,608	1,019	3,150	+ 437

E.P.U.: Movement of ordinary credit, June 1954 to March 1958.

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	284	284
Monthly amortisations	458	458
By Union	130	—
By France and Italy	142	142
Total repayments	1,014	884
New credit granted and received (net)	833	764
Outstanding March 1958		
Within quotas	549	925
Outside quotas	686	94
Total credit	1,235	1,019

The relative stability of ordinary credit outstanding, which had lasted from July 1954, had come to an end by the autumn of 1956 and the total volume of credit increased steadily thereafter to a peak in September 1957; since then, however, pressure on the settlement mechanism has eased somewhat.

In June 1954, before special repayment measures were introduced, 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 1958, Germany was the only creditor beyond its quota, the other credit positions having declined. Over the twelve months to March 1958, new credit granted by Germany amounted to \$225 million, and the total credit granted by Germany reached \$1,013 million (including \$27 million of special credit).

As regards the cumulative debtors, only France and Turkey were outside their quotas at the end of March 1958.

The additional ralonge of \$200 million granted to France (mentioned on page 197) was supplemented by new facilities under two Decisions of the Council of O.E.E.C., taken on 11th February 1958.

France was granted a new stretch of ralonge of \$400 million to settle deficits incurred in the calendar year 1958; the \$100 million of credit thus made available bears interest at 3½ per cent. per annum. The new ralonge was merged with the previous one, thus providing total settlement facilities of \$600 million.

In addition to the ordinary credit within the ralonge, special credit up to an aggregate of \$150 million was made available for utilisation, at France's request, in order to discharge (wholly or in part) France's obligation to pay gold to the Union under the normal settlement rules applicable to the ralonge. This special credit, also for the calendar year 1958, may be utilised only to the extent of \$80 million between January and June 1958

and bears interest at 4¼ per cent. per annum, payable fully in gold (and not by half-yearly adjustment of the net position like interest on ordinary credit in the Union).

The second Decision of the Council laid down the conditions under which five members of the Union (Austria, Belgium, Germany, Italy and Switzerland) made available special credits to a total of \$118 million, to be drawn upon proportionately by the Union whenever France utilises the special credit. Interest on special credits granted by the lending countries also bears interest at 4¼ per cent. per annum, payable in gold.

The special credits are not automatically repayable through monthly surpluses and deficits like ordinary credits in the Union but are subject to specific terms: repayment, both by France to the Union and by the Union to the lending countries, is to take place in gold in monthly instalments of \$5 million from January 1960 onwards, with the possibility left open of advance repayments, at France's option. Furthermore, as regards the book-keeping of the Union, special credits are unaffected by, and kept distinct from, ordinary credit; they are treated as "pre-quota" settlements under Article 10 bis of the Agreement and adjustments are made to ensure that drawings by France and the resultant gold payments by lending countries should not affect their cumulative accounting positions. A minor complication in the book-keeping is due to the fact that two of the lending countries are cumulative debtors of the Union.

E.P.U.: Special credits by and to the Union; position at end March 1958.

Member countries	Total amount available	Amounts drawn		
		February 1958	March 1958	Total
in millions of units of account				
Credit from Union to: France	150.0	19.5	21.0	40.5
Credit to Union from:				
Austria	1.5	0.2	0.2	0.4
Belgium	5.5	0.7	0.8	1.5
Germany	100.0	13.0	14.0	27.0
Italy	5.0	0.7	0.7	1.4
Switzerland	6.0	0.8	0.8	1.6
Total	118.0	15.3	16.5	31.9

The \$32 million difference between the special credit to France and the total of special credits to the Union measures the extent to which drawings by France fall directly upon the gold and dollar holdings of the Union and may be taken to represent the Union's own contribution to the operation.

In February and March 1958, France drew a total of \$40.5 million on the special credit and the Union drew on the lending countries as shown in the table.

C. CURRENT AFFAIRS OF THE UNION.

During the Union's eighth year, Dr von Mangoldt has continued in the capacity of Chairman of the Managing Board, which held its ninety-fourth session in March 1958.

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 Reports on the operations, which are then forwarded to the Council of O.E.E.C. to be finally approved. The Board is responsible for the management and investment of the Union's liquid resources and periodically reviews the rates of interest payable on credit granted to and by the Union. The rates on ordinary credit have remained unchanged since July 1954; France pays 3½ per cent. on credit drawn within the rallonge of \$600 million, and the special credits bear interest at 4¼ per cent. on either side.

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 ¹
	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
Eighth year (1957-58) . .	2½	3	3½	3½ ² 4¼ ³	2½	3 4¼ ³

¹ In addition to the rates given above relating to creditors, 2½ per cent. was paid by the Union on the B.L.E.U. special credit.

² The rate applicable to credit within the rallonge of \$600 million granted to France.

³ The rate applicable to special credit granted to France by the Union and to the Union by the five lending countries.

Up to December 1957 gross interest paid by the Union totalled \$191.6 million, while the amount received was \$185.4 million; the excess of interest paid by the Union was therefore \$6.2 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 credit granted (\$78.9 million), followed by Belgium (\$37.8 million), the Netherlands (\$21.6 million) and Switzerland (\$18.7 million). The United Kingdom has paid a net amount of \$72.7 million and France \$39.6 million.

As the Union is on a uniform 75 per cent. gold basis for both debtors and creditors, it might be expected that the Union's gold and dollar holding would remain stable. Changes do, however, take place, owing largely to payments on a hundred per cent. basis by debtors above the quotas (and rallonges) and, voluntarily, within the quotas. The fall at the end of 1956 was due chiefly to the withdrawal by France of gold previously paid voluntarily to the Union. The increase of \$62 million in the year ended March 1958 is a net amount due to in-payments (above the 75 per cent.) of \$51 million (by France, Greece and Turkey) and voluntary payments of \$28 million (by Portugal and Switzerland), while \$9 million of French drawings on the special credit and \$8 million of the final repayment of the Belgian special credit of 1952 fell on the gold and dollar assets of the Union.

E.P.U.: Liquid resources.

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	141	36	2	179 ¹
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	124	153	267	544 ²
June (adjusted)	124	153	137	414
December	124	153	146	423
1955 June	124	153	123	399
December	124	248	4	376
1956 June	124	291	24	438
December	124	264	2	390
1957 March	124	201	58	383
June	124	209	53	386
September	124	237	51	411
December	124	240	70	433
1958 March	124	126	196	445

¹ Lowest point reached. ² Highest point reached.

From the autumn of 1955 until the end of 1957, when the price of gold in the London market was below the equivalent of \$35 per fine ounce, member countries with current deficits had an advantage in discharging their obligations to the Union in gold bars rather than U.S. dollars. This had an influence on the composition of the liquid assets of the Union, the gold holdings growing and the dollar assets falling. The recent rise in the dollar price of gold in London to above \$35 has had the reverse effect and, in 1958, the gold holding has fallen, while it has again become possible for the Union to invest the considerable dollar in-payments in U.S. Treasury bills.

In addition to the forty-eight bilateral repayment and amortisation agreements already concluded, four further 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 1958.

E.P.U.: Bilateral amortisation agreements — position as at March 1958.

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	17	16	Denmark	130	78	52
Belgium	281	165	116	France	232	149	83
Germany	552	298	254	Iceland	5	4	2
Netherlands	194	112	81	Italy	268	142	126
Portugal	24	8	16	Norway	109	60	49
Sweden	88	58	30	United Kingdom	570	310	260
Switzerland	142	84	58				
Totals	1,314	742	571	Totals	1,314	742	571

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 amounts of credit granted to or by the Union and, in order to maintain the cumulative accounting positions at four times the credit element, these positions are adjusted by four times the amount of credit repaid. Credit repaid under these agreements up to March 1958 totalled \$742 million, being 57 per cent. of the total amount covered.

3. The financial position of the Union in the spring of 1958.

The next table shows the financial position of the Union, giving a cross-section of the situations of member countries after the operations for March 1958; the effect of the ante-quota settlements and adjustments, including the granting of special credits (as settlements under Article 10 bis), and the settlement (within and outside the quotas) of the resulting accounting positions are also illustrated. The figures shown in the column "settlements under Art. 10 bis" denote special credits, except for \$196 million relating to France and some \$5 million to Greece: these figures represent gold formerly paid by France and Greece in one hundred per cent. settlement of deficits and still recoverable in certain conditions by way of surpluses. The figures in brackets shown in the column "credit received or granted", \$41 million for Portugal and \$12 million for Switzerland, denote the credit positions that would have existed for these countries if they had not made voluntary gold payments of similar amounts under Article 11(d); therefore the same figures appear in the column "gold actually paid or received" alongside the respective balances of gold paid in the usual way by the countries in question.

E.P.U.: Cumulative positions of member countries, July 1950 to March 1958.

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	Settlements under Art. 10 bis	Credit received(+) or granted(-) by Union	Gold actually paid (+) or received(-)	Gold settlement adjustments	Total equal to accounting surplus (+) or deficit (-) of country
in millions of units of account								
Austria . . .	- 76	+ 125	- 37	- 0	+ 3	+ 29	- 20	+ 12
Belgium . . .	+ 1,096	- 286	- 201	- 1	+ 152	+ 492	- 36	+ 608
Denmark . . .	- 271	- 5	- 35	-	- 78	- 121	- 113	- 311
France . . .	- 2,447	+ 238	+ 347	{ + 41 + 196 }	- 406	- 1,417	+ 198	- 1,625
Germany . . .	+ 4,015	+ 12	- 57	- 27	+ 986	+ 2,716	+ 241	+ 3,944
Greece . . .	- 283	+ 269	-	+ 5	- 2	- 6	-	- 9
Iceland . . .	- 34	+ 15	- 2	-	- 5	- 10	- 6	- 21
Italy	- 539	+ 43	+ 154	- 1	- 86	- 270	+ 12	- 344
Netherlands .	+ 364	+ 30	- 37	-	+ 89	+ 193	+ 76	+ 358
Norway . . .	- 300	+ 60	- 84	-	- 81	- 99	- 144	- 324
Portugal . .	- 123	- 3	- 40	-	(- 41)	{ - 41 - 93 }	- 31	- 165
Sweden . . .	+ 129	+ 6	- 117	-	+ 4	+ 72	- 59	+ 18
Switzerland .	+ 37	-	- 84	- 2	(- 12)	{ - 12 - 36 }	- 0	- 49
Turkey . . .	- 458	+ 92	- 70	-	- 30	- 336	- 70	- 436
United Kingdom .	- 1,106	- 243	+ 27	-	- 331	- 709	- 283	- 1,322
Cumulative creditors .	+ 5,643	- 190	- 485	- 29	+ 1,235	+ 3,503	+ 202	+ 4,939
debtors . . .	- 5,636	+ 542	+ 280	+ 239	- 1,019	- 3,150	- 437	- 4,606
Net totals . .	+ 6	+ 352	- 235	+ 210	+ 216	+ 353	- 235	+ 333

The table on the next page 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.

The totals of the statement, of liquid resources and of credits received had all attained record figures in June 1954 before the special repayments arranged at that time; the downward trend of these figures from that date until the beginning of 1956 and their subsequent increase can be clearly seen in the table.

In July, August and September 1957 the turnover of the Union was very considerable and, by the latter month, credit granted and received and the total of the statement attained the highest levels for over three years. In the meantime, up to March 1958, these figures have fallen somewhat as a consequence of the easing of the exchange position in Europe. The Union's

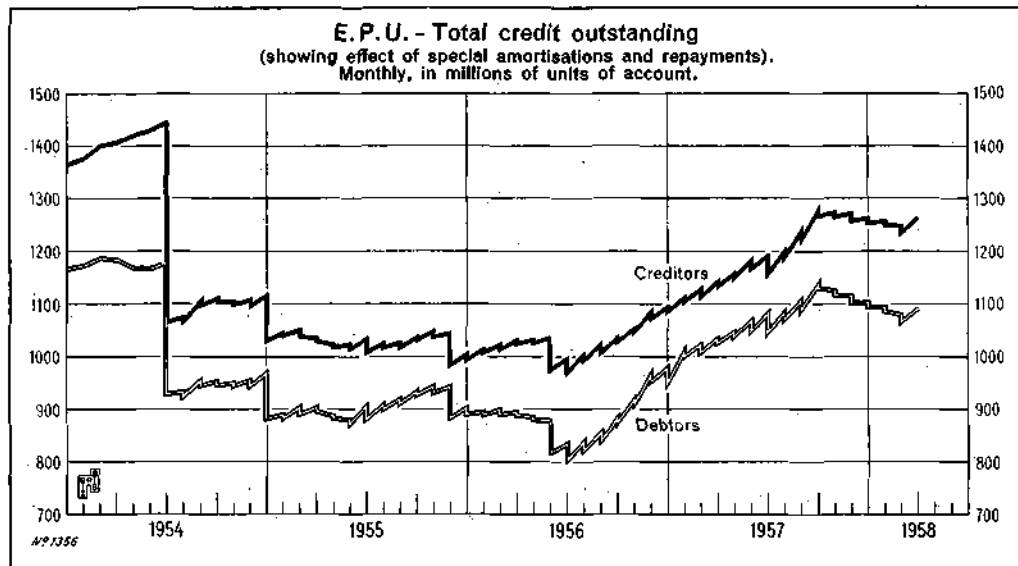
**E.P.U.: Summary of Statement of Account,
from opening (July 1950) to March 1958.**

After operations for accounting period	Assets			Total of State- ment	Liabilities		
	Liquid resources	Grants not yet received	Credit granted		Capital	Grants not yet given	Credit 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	—	1,446
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
June	386	—	1,080	1,466	272	—	1,193
September	411	—	1,138	1,549	272	—	1,276
December	433	—	1,102	1,534	272	—	1,262
1958 March	445	—	1,094	1,539	272	—	1,267

liquid resources have, however, continued to increase (on account of one hundred per cent. in-payments by debtors).

The table on the next page illustrates the effect of repayments on the ordinary credit in the Union and enables a comparison to be made between the development of bilateral repayments and new credit granted and received since June 1954. The table applies to ordinary credit only (to which the repayment agreements apply) and thus omits the special credits of January 1958 and, on the debtor side, the longer-term loans to Norway and Turkey. (The graph, however, applies to all credit granted and received.)

Since the introduction of the bilateral repayment and amortisation scheme in June 1954, only France has received more new credit in the current operations than it has repaid bilaterally and to the Union (although no new credit was received by France in the operations between July 1957 and January 1958, when one hundred per cent. gold payments were made to the Union). Italy's position has improved since last year; considerable bilateral repayments have been made, while credit has also been reduced in the current operations. The United Kingdom has continued to make repayments in excess of new credit taken. Greece, after a short period as creditor,



E.P.U.: Ordinary credit amortised and new credit received and granted by countries, June 1954 to March 1958.

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 1958
	In millions of units of account			
Denmark	98	78	58	78
France	312	279	373	406
Greece	—	—	2	2
Iceland	6	4	4	5
Italy	122	154	118	86
Norway	89	60	51	81
Turkey	30	—	—	30
United Kingdom	485	310	155	331
Totals	1,142	684	761	1,019

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 1958
	In millions of units of account			
Austria	73	26	(— 44)	3
Belgium	217	202	137	152
Germany	604	438	820	986
Netherlands	207	150	33	89
Portugal	30	12	(— 18)	—
Sweden	105	71	(— 29)	4
Switzerland	181	115	(— 67)	—
Totals	1,416	1,014	833	1,235

from December 1956 to April 1957, has reverted to a moderate debtor position (but like Turkey does not participate in the bilateral repayment scheme).

As regards the creditors, Germany still 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 on account of deficits in the course of the current operations, in addition to the repayments received bilaterally and from the Union. Portugal has continued to be a debtor during the year and the bilateral arrangements remain suspended. The same applied to Austria until September 1957 when bilateral repayments were resumed. Switzerland became a cumulative debtor of the Union in February 1958 and, in view of the resulting suspension of bilateral agreements, received no repayments for March 1958.

E.P.U.: Ordinary credit 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 September	62	120	129	506	817
December	190	80	79	580	929
1957 March	255	59	88	583	985
June	305	47	76	601	1,029
September	340	32	80	618	1,069
December	263	135	54	628	1,080
1958 March	149	215	48	612	1,024
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 September	134	84	80	721	1,019
December	193	97	25	769	1,084
1957 March	234	95	54	743	1,126
June	295	65	100	722	1,181
September	382	94	57	702	1,235
December	370	163	69	669	1,270
1958 March	249	232	80	669	1,231

In March 1958, 60 per cent. of the ordinary credit granted to the debtors of the Union had been outstanding for more than three years; for the creditors the proportion, at 54 per cent., was, in contrast with the position the year before, somewhat lower. The table on the previous page shows that since March 1957, whereas the proportion of credit granted by the creditors and outstanding for over three years has declined in the face of a considerable increase in the total volume of credit granted, the proportion of credit received by the debtors and outstanding over three years has undergone little change. For the creditors there has been a slight increase in credit of one year and less, while for the debtors there has been a considerable decrease (in both cases there has been a fall from the high positions of December 1957). For both creditors and debtors, however, there has been a large expansion in credit outstanding for over one and under two years. Credit outstanding for between two and three years has remained relatively small. 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.

E.P.U.: Utilisation of the quotas
as at March 1958.

Member countries	Quotas	Utilised as at March 1958	
		Amounts	Percentages of quotas
		as creditor (+) or as debtor (-)	
	in millions of units of account		percentages
Austria	168	+ 12	+ 7
Belgium	805	+ 608	- 75
Denmark	468	- 311	- 67
France	1,248	-1,625	- 130
Germany	1,200	+3,944	+ 329
Greece	108	- 9	- 8
Iceland	36	- 21	- 58
Italy	492	- 344	- 70
Netherlands	852	+ 358	+ 42
Norway	480	- 324	- 67
Portugal	168	- 155	- 98
Sweden	624	+ 18	+ 3
Switzerland	600	- 49	- 8
Turkey	120	- 436	- 363
United Kingdom . .	2,544	-1,322	- 52
Totals			overall averages
Creditors	3,649	+4,939	+ 135
Debtors	6,264	-4,606	- 74

The above table shows that the debtors were utilising, on the average, 74 per cent. of their quotas in March 1958 and that those of the creditors were drawn upon to the extent of 135 per cent. However, if Germany, whose quota was exceeded by 229 per cent., is excluded, the average for the other creditors works out at only 41 per cent.

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The activities of the Bank progressed satisfactorily and in line with tendencies described in the preceding Report, which summarised their development during the last ten years (Twenty-seventh Annual Report, pages 223-231).

The balance sheet of the Bank as at 31st March 1958, 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 1958 amounts to 2,232,349,461 gold francs, against 2,181,003,300 gold francs on 31st March 1957.

The total volume of business handled by the Bank during the financial year under review was about one-third more than the figure for the previous year, which was itself almost double that for the year 1955-56. The following table shows the development of this figure, and also of the balance-sheet total, during the past five financial years.

**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	
1953-54	1,512	15,946
1954-55	1,718	23,385
1955-56	1,757	24,856
1956-57	2,181	45,448
1957-58	2,232	59,170

As stated in Note 1 at the foot of the monthly statements of account, the following items are not included in the statements: gold under earmark, bills and other securities held in custody for the account of central banks and other depositors; gold under earmark, bank balances, bills and other 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 1957, 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 1957	31st March 1958
	in millions of gold francs	
Earmarked gold	738.2	538.5
Bank balances	35.3	47.2
Bills and other securities	513.4	1,088.7
Total of items not included in the balance sheet	1,286.9	1,674.4

The total of the first part of the Bank's statement of account, which stood at 2,181 million gold francs on 31st March 1957, fluctuated within relatively narrow limits during the year under review. It reached its highest level for the financial year, at 2,299.4 million, on 30th June. It declined to 2,036 million on 30th September, then rose to reach 2,146.1 million on 31st October, thereafter decreasing again to 1,889.1 million — the lowest level for the year — on 31st December. It subsequently rose progressively up to 31st March 1958, when it stood at 2,232.3 million, a figure close to the maximum of the monthly statements of account and the highest attained at the end of any financial year since the foundation of the Bank.

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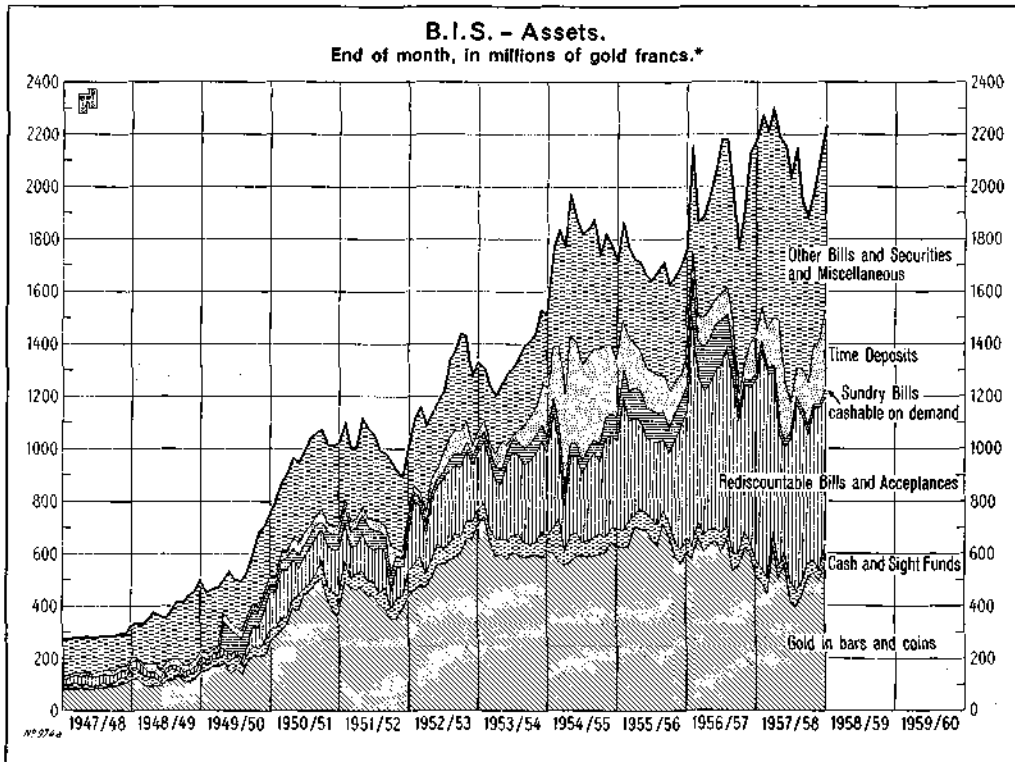
ASSETS.

The total of the item Gold in bars and coins amounted to 513 million gold francs in the statement of account as at 31st March 1957. It reached its highest level for the financial year — 626.6 million — on 30th June; it subsequently registered various fluctuations and was down to 398.7 million — the lowest figure for the financial year — on 31st October, whereafter it rose again to 558.3 million on 31st March 1958.

Variations in this item of the assets depend, however, not only on those of the deposits expressed in a weight of gold received by the Bank but also on the development of the investments made in this form and of forward operations. It was mentioned in the preceding Annual Report that the volume of these operations had been increasing during recent years. The same was true of the financial year just ended. On 31st March 1957 the total of current forward exchange operations stood at 384 million gold francs, and on 31st March 1958 it amounted to 318 million; forward purchases of gold, which totalled 388 million on 31st March 1957, stood at the same figure — 388 million — on 31st March 1958, while forward sales of gold declined from 233 million on 31st March 1957 to 214 million on 31st March 1958.

The forward gold operations undertaken had resulted on 31st March 1957 in a net balance of gold to be received (and currencies to be delivered) of 155 million gold francs. The corresponding figure on 31st March 1958 was 174 million.

As in the course of the preceding financial year, the total of gold in bars and coins as shown in the statement of account was frequently lower



than that of the deposits expressed in a weight of gold, 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 high level and was in general greater than the total of its net available funds.

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	Spot position				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						
1957 March	513	204 (max.)	-627	90	+ 155	245
June	626 (max.)	160	-703	83	+ 161	244
July	504	190	-780 (max.)	- 86 (min.)	+ 329 (max.)	243
August	564	184	-656	92	+ 185	277 (max.)
September	424	139	-527	36	+ 203	239 (min.)
October	399 (min.)	133	-492 (min.)	40	+ 207	247
1958 January	525	92	-509	108 (max.)	+ 147 (min.)	255
March	558	77 (min.)	-554	81	+ 174	255

The item Cash on hand and on sight account with banks fluctuated within relatively narrow limits and only rarely fell below 50 million gold francs. On 31st March 1957 it amounted to 56.9 million gold francs; it reached its lowest level — 42 million — on 28th February 1958 and was at its highest — 76.9 million — at the end of the financial year.

The average balance shown under this heading during the financial year 1957-58 amounted to approximately 56 million gold francs, compared with 57 million in the preceding financial year.

On 31st March 1958 cash held in dollars accounted for 85 per cent. of the Bank's total cash holdings in currencies and holdings of Swiss francs for 11 per cent. The corresponding figures on 31st March 1957 were 81 per cent. and 15 per cent. respectively.

Gold and cash holdings in currencies, taken together, represented 28.4 per cent. of the total of the first part of the statement of account on 31st March 1958, against 26.1 per cent. on 31st March 1957.

There were considerable fluctuations in the total of the rediscountable portfolio, and on 31st March 1958 it was a little lower than it had been a year earlier. 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		
1957 March	60.8 (min.)	635.3	696.1
April	66.0	769.1 (max.)	835.1 (max.)
August	95.9	303.4 (min.)	399.3 (min.)
1958 March	167.6 (max.)	392.1	559.7

The Bank's holdings of bankers' acceptances — all of them dollar acceptances — increased, particularly at the end of the financial year. As far as its holdings of Treasury bills are concerned, slightly less than three-quarters of these consisted of U.S. Treasury bills, the balance being almost entirely accounted for by British Treasury bills.

The total of the item Sundry bills cashable on demand remained more or less unchanged throughout the financial year. On 31st March 1957 it stood at 23.7 million gold francs; it reached its lowest point — 22.9 million — on 31st July and its highest point — 30.4 million — at the end of the financial year.

The total of the Bank's sight investments, comprising the various items mentioned above, was 1,289.6 million gold francs at the beginning of the financial year. It rose to its highest level one month later, standing at 1,402.9 million on 30th April, but then declined to its lowest point —

1,031.9 million — on 31st August. It subsequently remained quite substantially above this level and stood at 1,225.4 million on 31st March 1958. This figure represented 54.9 per cent. of the total of the first part of the balance sheet, against 59.1 per cent. a year earlier. During this period the percentage of sight deposits declined from 5.6 per cent. to 4.2 per cent.; the Bank's liquidity thus remained very high.

There were considerable fluctuations during the financial year in the total of the item Time deposits and advances. After having stood at 146.5 million gold francs on 31st March 1957, it rose to 409.6 million — its highest point in the financial year — on 31st July, but subsequently fell very rapidly, touching its lowest point — 113.6 million — on 30th September. From then onwards this total grew steadily larger, so that by 31st March 1958 it had risen to 303.2 million — more than double the previous year's figure. During the financial year the Bank granted a fairly large amount of short-term facilities.

The fluctuations in the total of the item Other bills and securities were, relatively speaking, smaller in extent. This figure had stood at 673.8 million gold francs on 31st March 1957. After various ups and downs it reached its highest level for the financial year — 835.4 million — on 31st August and then fell again, touching its lowest point — 526.1 million — on 31st January 1958. At the end of the financial year the total was 634.2 million, i.e. slightly less than the previous end-of-year figure.

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 1957	31st March 1958	Difference
	In millions of gold francs		
Gold	204.2	76.6	- 127.6
Currencies	616.1	860.8	+ 244.7
Total	820.3	937.4	+ 117.1

As in the previous financial year, gold investments declined, but this time to a considerably greater extent and more or less steadily throughout the year. Currency investments, on the other hand, showed a fairly appreciable increase.

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.

Whereas investments at not exceeding six months rose only slightly, investments at over six months showed a fairly considerable increase. The proportion of the total accounted for by investments at over six months was 18 per cent. on 31st March 1958, compared with 8 per cent. on 31st March 1957.

B.I.S.: Time deposits and advances and other bills and securities.

Period	31st March 1957	31st March 1958	Difference
	in millions of gold francs		
Not exceeding 3 months	561.1	642.8	+ 81.7
Between 3 and 6 months	192.0	128.3	— 63.7
Between 6 and 9 months	28.3	38.2	+ 9.9
Between 9 and 12 months	—	81.2	+ 81.2
Over 1 year	38.9	46.9	+ 8.0
Total	820.3	937.4	+ 117.1

The reasons for the changes in the general structure of the Bank's assets in the second half of the financial year were twofold, these having been due to the desirability, on the one hand, of keeping the Bank's liquidity at as high a level as possible and, on the other, of avoiding too sharp a reduction in the Bank's total investment income in view of the rapid fall in interest rates, principally on the American market. Owing to the nature of its operations the Bank is obliged to keep large sums in the form of liquid investments or investments realisable at very short notice. Consequently, when interest rates are falling persistently, the yield on new investments is automatically — and sometimes substantially — reduced.

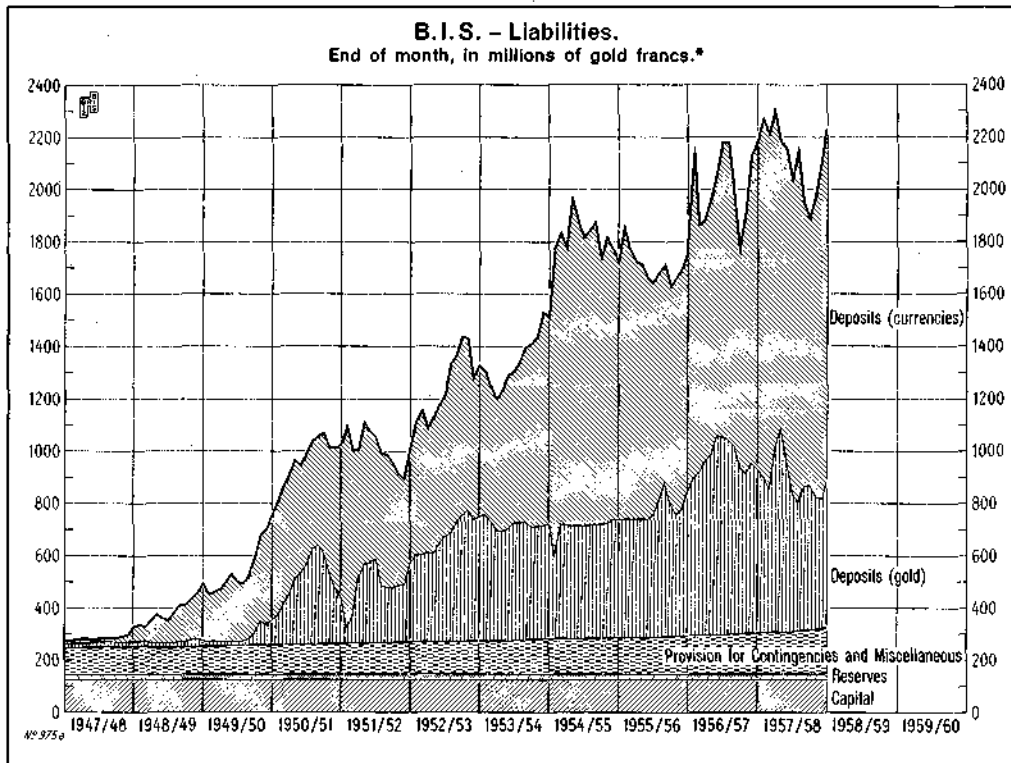
* * *

LIABILITIES.

The Bank's reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 21.3 million gold francs on 31st March 1957 to 21.7 million on 31st March 1958. 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 1958 and the balance brought forward from the preceding year, amounted to 15.7 million gold francs on 31st March 1958, against 13.1 million a year earlier. The amount of the item "Provision for contingencies" rose from 133.5 million gold francs on 31st March 1957 to 143.5 million on 31st March 1958. For the item "Miscellaneous" the figure was 12 million gold francs at the beginning of the financial year and 17 million at the end.

B.I.S.: Deposits in gold and currencies.

End of month	Deposits in gold	Deposits in currencies	Total
	in millions of gold francs		
1957 March	626.8	1,249.4	1,876.2
April	593.2	1,368.8 (max.)	1,962.0
June	703.4	1,286.2	1,989.6 (max.)
July	780.0 (max.)	1,099.4	1,879.4
October	492.1 (min.)	1,342.0	1,834.1
December	553.3	1,018.4 (min.)	1,571.7 (min.)
1958 March	654.0	1,355.5	1,909.5



* Not including liabilities connected with the execution of the Hague Agreements.

The movements of deposits during the financial year are summarised in the preceding table; 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.

The following table enables the trend of deposits to be followed over the past two financial years.

B.I.S.: Short-term and slight deposits.

Items	31st March 1956	31st March 1957	31st March 1958
	in millions of gold francs		
Gold			
Central banks	457.3	470.4	418.6
Other depositors	94.8	156.4	135.4
Total in gold	552.1	626.8	554.0
Currencies			
Central banks	869.0	1,071.5	993.3
Other depositors	42.0	177.9	362.2
Total in currencies	911.0	1,249.4	1,355.5
Total in gold and currencies	1,463.1	1,876.2	1,909.5
Comprising			
Sight funds	341.8	118.7	92.9
Short-term funds	1,121.3	1,757.5	1,816.6
Total	1,463.1	1,876.2	1,909.5

Deposits in a weight of gold decreased during the financial year by 72.8 million gold francs, while currency deposits rose by 106.1 million, the resultant increase in the total of these deposits amounting to 33.3 million.

If, however, account is taken of the fact that certain fixed deposits in a weight of gold made by central banks take the form of a swap of gold against currencies and figure in the balance sheet as currency deposits — to the extent of 131 million gold francs on 31st March 1957 and 89 million on 31st March 1958 — deposits in a weight of gold are found to have declined during the financial year by 114.8 million gold francs, while currency deposits increased by 148.1 million gold francs.

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 1957	31st March 1958	Difference	31st March 1957	31st March 1958	Difference
	in millions of gold francs					
At sight	83.3	21.3	— 62.0	35.5	71.6	+ 36.1
At not exceeding 3 months	442.5	406.1	— 36.4	929.1	947.3	+ 18.2
Between 3 and 6 months	101.0	126.6	+ 25.6	209.5	204.2	— 5.3
Between 6 and 9 months	—	—	—	16.4	95.0	+ 78.6
Between 9 and 12 months	—	—	—	1.4	1.4	—
Over 1 year	—	—	—	57.5	36.0	— 21.5
Total	626.8	554.0	— 72.8	1,249.4	1,355.5	+ 106.1

The decline in the total of deposits in gold was accounted for mainly by sight deposits and to a lesser extent by deposits at not exceeding three months, while deposits at between three and six months increased somewhat. Sight deposits in currencies doubled, though their total was still relatively small. Deposits at not exceeding three months and at between three and six months remained practically unchanged, while those at between six and nine months showed a fairly substantial increase and those at over one year declined.

There was thus a certain stability — indeed, a slight increase — in the deposits entrusted to the Bank at short term, which are the most suitable for its operations on behalf of its correspondents. The Bank has in fact consistently pursued a policy of accepting the greatest possible amount of time deposits and allowing interest on them at market rates. This policy naturally necessitates constant adaptation and becomes difficult in periods of rapidly declining rates, as has been mentioned above. Nevertheless, the Bank thought it desirable, in view of its strong financial position, to take the risk of paying interest on relatively large deposits — a policy which has enabled it considerably to increase the effectiveness of its services.

B.I.S.:
Volume of gold operations.

Financial year	in millions of gold francs
1955-56	4,650
1956-57	7,004
1957-58	10,848

The volume of the Bank's gold operations again increased. It was more than half as large again as the figure for the previous financial year, which, in turn, was very much higher than that for 1955-56, as is shown by the accompanying table. These transactions consisted, as before, of purchases, sales and exchanges, forward operations, swap

operations and investments in a weight of gold. New arrangements enabling both the Bank and its correspondents to enjoy the benefit of forward options have made it possible to give the latter greater freedom in the handling of their gold holdings.

The tendency of the gold market during the financial year was often in one direction only — sometimes downwards but usually upwards — and this occasionally complicated the Bank's position; as usual, however, it endeavoured to comply as far as possible with the requests made by its correspondents. In particular, the Bank was able to render them useful service during the period when the reserves of various countries were undergoing considerable fluctuations. The Bank's activities in this sphere yield very little return, its profit margins still being extremely narrow, but they enable it to maintain useful contacts with the various markets and central banks and are generally combined with other operations.

As in the past, the Bank has continued to keep in touch with the major international financial institutions, such as the International Bank for Reconstruction and Development, the International Monetary Fund and, more recently, the European Investment Bank. Furthermore, the Bank renders technical assistance to a number of other international organisations, which are having increasing recourse to its services.

* * *

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.

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	\$	40,268,100	7,822,200
Belgian	£	456,700	123,500
British	£	7,333,500	1,977,700
Dutch	£	271,000	58,300
French	£	1,673,600	430,900
Swedish	S.Kr.	10,209,000	—
Swiss	£	1,080,800	106,200
Swiss	Sw.fcs	8,167,000	407,400

German Government International Loan 1930
(Young Loan).

Issue	Currency	Conversion bonds	Funding bonds
American	\$	53,319,600	8,641,300
Belgian	B.fcs	190,982,000	43,985,000
British	£	16,528,500	3,927,500
Dutch	Fl.	12,573,000	322,200
French	Fr.fcs	37,396,700,000	8,226,100,000
German	DM	9,610,900	334,300
Swedish	S.Kr.	91,030,000	5,891,000
Swiss	Sw.fcs	58,013,700	1,393,000

The offer of settlement concerning the Dutch issues of the Dawes and Young Loans having been published on 16th December 1957, the validation and exchange operations, which are still in progress, now include the old bonds of these issues.

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 15.4 million gold francs for the Dawes Loan and about 40.3 million gold francs for the Young Loan. These amounts are distributed amongst the Paying Agents for the different issues of the loans. The sinking-fund payments will begin in the course of 1958.

The amounts of the bonds of the Austrian Government International Loan 1930 which have been assented and are in circulation are approximately as follows.

American issue	\$	1,535,900
Anglo-Dutch issue	£	966,900
Swiss issue	Sw.fcs	7,082,000

The offer of settlement for the American issue was published on 16th September 1957, the arrangements made to this end between the Governments of the Republic of Austria and the United States of America having entered into force.

During the year under review, the Bank in its capacity as Trustee received altogether from the Government of the Republic of Austria for distribution to the Paying Agents the equivalent of about 2.0 million gold francs in respect of the interest service on the assented bonds. The sinking-fund payments in respect of this loan are to begin in 1959.

The sums due in respect of the coupons which the Federal Republic of Germany has undertaken to pay to the extent of 75 per cent. of their nominal value continued to be furnished through the intermediary of the Bank in its capacity as Trustee. These sums also included, for the first time, payments in respect of the coupons of the American issue, the service of which began in September 1957, and they amounted altogether, during the year under review, to the equivalent of about 1.5 million gold francs (3.7 million since the beginning of the payments in 1954). The last coupon is to be paid on 1st July 1962. The coupon-holders can, however, obtain advance payment of the coupons representing arrears of interest, subject to the deduction of a discount.

3. The Bank as Depository under the terms of the Act of Pledge concluded with the High Authority of the European Coal and Steel Community.

In 1957 the High Authority of the European Coal and Steel Community contracted in Luxemburg a further loan for an amount of 100 million Luxemburg francs, which was granted by the Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg. The loans contracted by the High Authority up to the present, amounting altogether to the equivalent of about 506.6 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
	1955	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	3%	27
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	Fr.fcs 350,000,000			4%	21
6th	1956	Switzerland	Public issue	Sw.fcs 50,000,000	4%	18
7th	1957	United States	Public issue	\$ 25,000,000	5%	18
8th			" "	\$ 7,000,000	5	5
9th			Bank loans	\$ 3,000,000	5	5
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	Lux.fcs 100,000,000	5½	25

The proceeds of these loans are used by the High Authority to grant credits in the member countries of the European Coal and Steel Community. The proceeds of the last loan, which have not yet been distributed, have been invested at short term.

As stated in the preceding Annual Reports, the Bank for International Settlements performs, in respect of these operations, the function of Depositary, which it assumed under the terms of an Act of Pledge concluded with the High Authority on 28th November 1954. Under this 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.

During the financial year 1957-58 the Bank for International Settlements received and paid out the equivalent of about 20 million gold francs in respect of interest and commission. The first redemption payments in respect of the advances made and the loans contracted by the High Authority fell due in the course of the financial year; the sums received and paid out under this head amounted to the equivalent of about one million gold francs.

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 have 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 568,672 gold francs in the twelve months to March 1958; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1958).

5. Financial results.

The accounts for the twenty-eighth financial year ended 31st March 1958 show a surplus, before providing for contingencies, of 19,317,738 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 16,014,462 gold francs.

The net amount of interest, discount and commission earned was again 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 remained unchanged at approximately 4 million gold francs.

In comparison with the previous year, Costs of Administration showed a modest increase.

For the purpose of the Balance Sheet as at 31st March 1958, 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 1958, the Board of Directors has decided that it is necessary to transfer 10 million gold francs to the provision for contingencies. This provision is thereby raised to 143,500,000 gold francs.

The Net Profit for the year, after deducting the above transfer, thus amounts to 9,317,738 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 465,887 gold francs, and after adding the balance of 6,354,728 gold francs brought forward from the previous year, there is a sum of 15,206,579 gold francs available.

The Board of Directors recommends that the present General Meeting should declare a dividend of 37.50 gold francs per share payable in Swiss francs in the amount of 53.60 Swiss francs per share, involving a distribution of 7,500,000 gold francs, and should decide to carry forward the balance of 7,706,579 gold francs. The proposed dividend of 37.50 gold francs per share corresponds to 6 per cent. on the paid-up capital. The dividend declared at the last Annual General Meeting was 31.50 gold francs per share payable in the amount of 45 Swiss francs per share.

The accounts of the Bank and its twenty-eighth 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.

Monsieur Hubert Ansiaux joined the Board as an ex officio Director on 8th August 1957 upon his appointment as Governor of the National Bank of Belgium in succession to Monsieur Maurice Frère, who had resigned that office on reaching the age-limit.

Monsieur J. Van Nieuwenhuysse at the same time tendered his resignation as a Director of the Bank for International Settlements and was thanked by the Board at its Meeting on 14th October 1957 for his valuable services to the Bank. Monsieur Ansiaux appointed Monsieur Frère in the place of Monsieur Van Nieuwenhuysse as a Director under Article 28(2) of the Statutes. He also nominated Monsieur C. de Strycker as his Alternate.

Professor P. Stoppani, who had been appointed by the Governor of the Bank of Italy as a Director under Article 28(2) of the Statutes and whose mandate was due to expire on 7th November 1957, was re-appointed in October 1957 for a further period of three years.

Monsieur Maurice Frère announced at the meeting of the Board on 14th October 1957 that he had decided to offer his resignation as Chairman of the Board of Directors and President of the Bank. This was accepted by the Board with the greatest regret and the Directors were unanimous in asking him to retain these functions until the approval by the next Annual General Meeting to be held on 9th June 1958 of the balance sheet for the current financial year. Monsieur Frère agreed to this proposal and was thanked for the many services he had rendered to the Bank over a long period since its formation, when he took part as an expert at the conference held at Baden-Baden in October 1929. Having accepted the Chairmanship of the Board of Directors in 1946 at a particularly difficult period for the Bank, he played a decisive part in the negotiations which enabled the Bank to resume its activity. He was warmly congratulated on the great progress it had made during his term of office.

At the same meeting the Board of Directors expressed their intention to invite Dr M. W. Holtrop, President of the Nederlandsche Bank, to assume the offices of Chairman of the Board of Directors and President of the Bank in succession to Monsieur Frère. Dr Holtrop expressed his willingness to assume these offices and he was formally appointed as from 1st July 1958 at the meeting of 12th May 1958, having been re-elected as a member of the Board on 10th March.

Dr W. Vocke, who had been appointed to the Board by the ex officio Directors under Article 28(2), paragraph 3, of the Statutes, was succeeded by Herr K. Blessing on 1st January 1958 as President of the Deutsche Bundesbank and at the same time resigned his seat on the Board. Herr Blessing was elected by the ex officio Directors, on the same terms, as a Director of the Bank for International Settlements, at a meeting held on 13th January 1958. A warm tribute to the eminent services which Dr Vocke had rendered to the Bank during his long association with it was paid to him by the Board at the same meeting.

In August 1957 Mr. Jan Knap, formerly of Norges Bank, was appointed a Sub-Manager.

Conclusion.

The year 1957 was marked by important changes in the world economy: it witnessed the paradox of a recession coinciding with a continued rise in national price levels at the very time when there had been a substantial decline in the world-market quotations for many raw materials.

In such a situation the monetary authorities are faced with a difficult task. For, indeed, the technique of continuous expansion and of full employment of all available resources, the mastery of which has become the primary aim of modern economies, is as yet far from being securely based on exact knowledge.

But considerable progress has been made. Methods of economic analysis have since the war become increasingly precise and comprehensive. And at the same time — more important still — valuable experience has been gained.

Since the stabilisation of the Italian lira in 1947 monetary policy has everywhere undergone many vicissitudes; its failures have, however, been no less instructive than its successes and, broadly speaking, it can now be said that the prejudices and purely theoretical predilections which were current at the end of the war have been replaced by a technique which, empirical though it is, is based on the lessons of reality and is capable of being effectively adapted to circumstances.

The essential thing is that economic analysis and the sound judgement born of experience should reinforce each other and be combined in a coherent policy.

Experience has proved that an active and flexible monetary policy which does not hesitate to make decisive use of changes in interest rates and other methods of credit control is a vital weapon, but that this weapon cannot be fully effective unless it is supported by a financial and commercial policy resolutely aimed at the same objectives.

Experience has also proved that a stepping-up of production achieved at the cost of upsetting overall equilibrium provides no assurance of durable expansion. For, owing to the inevitable inflationary tensions, it will be brought to a stop either by distortions in the price structure or by external insolvency or — frequently — by both of these together. On the other hand, it has become abundantly clear that a firm monetary policy, far from being incompatible with a rapid, or often even spectacular, economic expansion, is in fact the indispensable condition of sustained development.

Experience has proved, too, that a gradual but resolute freeing of domestic and foreign trade is the best guarantee of balanced expansion and that prices and exchange rates are ultimately controlled by the markets and

not by regulations, which, since they attack the symptoms instead of the disease, are inevitably ineffectual in the long run.

The degree of success achieved by individual countries in recent years in their fight against inflation and in their efforts to render their economies capable of withstanding unavoidable fluctuations in business activity has been largely determined by two factors: the relationship between saving and investment and the relationship between the rise in incomes and the increase in productivity.

The maintenance of balance between domestic investment and the supply of savings is the basic requirement for the avoidance both of foreign-payments crises and of demand inflation. In view of its importance and of the policy problems connected with it, a chapter of the present Report has been devoted to a special study — completing that begun last year — of the relationship between saving and investment in the various sectors of the economies of the United States and a certain number of European countries.

With regard to labour productivity, the avoidance of cost inflation has naturally been easier in countries possessing an initial margin of unutilised resources than in those which had already reached a state of full employment. Particularly in the latter, wage increases based on technical progress achieved in the most advanced branches of activity have tended to spread to other branches, such as agriculture and commerce, in which the rate of increase of productivity is slower. As a result the cost of living is apt to rise more than wholesale prices, thus creating in the economy as a whole a tendency towards a continual rise in prices and costs.

The stepping-up of productivity demands not only the adoption of technical measures such as the development of scientific research or the training of unskilled labour but also the pursuit of a general policy which, rather than protecting vested interests, will promote the prompt adaptation of production to changing requirements. In this respect, in particular, the rigidity of the agricultural policies of many countries is only too often an obstacle to progress.

Since, if a wage-price spiral is to be avoided, increases in nominal incomes must be kept in line with the actual rise in productivity in the economy as a whole, it is essential that in the most favourably placed branches of activity part of the margin created by technical progress should be utilised to bring about a reduction in the prices of mass consumption goods, thus benefiting the whole of the population. This, it should be repeated, "is, in addition to being a social necessity, a fundamental condition for any firmly-based economic development".

It is obvious, however, that the wealth of practical knowledge acquired in recent years cannot afford any protection against short-term fluctuations which, even when the teachings of experience are not wilfully disregarded, may come about owing to the difficulty of closely co-ordinating all aspects of economic policy. Public expenditure, in particular, is partly related to

aims — of social progress or national defence, for instance — which are hardly influenced by the need to iron out business fluctuations. Especially in the richer countries, changes in the tastes and the propensity to spend of the mass of consumers necessitate difficult adjustments in a productive apparatus whose very size adds to its rigidity. Variations in the rate of technological advance may also play, and appear to have played in the United States, a fairly important rôle.

Certain useful lessons are, however, being learnt even about these more unpredictable factors. It has been found that a large-scale expansion of consumer credit undoubtedly accentuates fluctuations, since it subsequently leads consumers to hold back at the very time when producers are cutting down their investment. And attempts to combat inflationary tendencies by keeping certain prices (public utility rates, rents, etc.) at an artificially low level only succeed, it is realised, in postponing the inevitable adjustments, with the result that these have the effect of maintaining the increase in the cost of living in times of recession, thus delaying the relaxation of monetary policy which could hasten recovery. On the other hand, the containment of public-sector investment during a boom and its expansion in a recession are seen to provide a useful offset to the inverse movement of private investment.

While realising the seriousness of the problems presented by the current situation, we should also recognise that it is not without its favourable aspects.

The structure of exchange rates is now much firmer and more realistic than it has been for a long time. Except in a few special cases, the present exchange rates constitute, on the whole, a sound basis for movements of goods and capital.

In those cases where the volume of savings has recently appeared inadequate this has been primarily due to the excessive development of the boom in its final phase. In all countries whose finances and currencies have been managed on sound lines there has been a vigorous expansion of saving which resulted in the attainment of record levels in 1957. It is up to the authorities to encourage this development both by their general policies and by the adoption of special measures appropriate to the particular circumstances of their own countries.

If the recession gives rise to increasing consumer resistance and obliges producers better to adapt the goods they supply to the existing pattern of demand, this development, unwelcome though it may be for the time being, will constitute, from a long-term point of view, a positive factor, since it will force producers to make adjustments which, had they been longer delayed, would have been even more painful.

An adjustment of prices and production and the creation of easy capital-market conditions — both these factors are equally essential if the present recession is to be prevented from spreading; and it is the combination of these factors that, in the past, has been found to be the most effective means of reducing to a minimum the duration of periods of readaptation.

It is probable that, at least in some countries, special efforts will have to be made to get economic activity into full swing again. It is very important for the future that the authorities should take the greatest care to choose such measures as are least likely to touch off a fresh inflation, delay inevitable adjustments and hamper the growth of saving. The development of a wide market for long-term capital sustained by moderate but remunerative rates of interest would in any case seem to be an essential condition of recovery. The reduction in the volume of investment and in the demand for bank credit in fact establishes easier and more balanced conditions in the capital markets.

A factor which should not be underestimated is the remarkable expansion of world trade, not only in value but also in volume, during the last ten years. There are still too many hindrances to trade, and some countries are for the time being faced with difficult balance-of-payments problems. But the tendency towards trade expansion is undeniable. The recession in the United States has not as yet given rise to any "dollar shortage" in the rest of the world, and it has in any case been amply demonstrated that the imposition of prohibitions and restrictions on trade can never be a lasting remedy for external deficits.

The decline in the prices of many world-market commodities has, it is true, created fresh problems for the producing countries. The best way of alleviating these difficulties is, firstly, that this decline should be allowed to be promptly reflected in the domestic prices of the importing countries and, secondly, that the present recession in certain industrial countries should be regarded by them not as a pretext for reducing their investments in less developed regions but, on the contrary, as a reason for increasing the volume of such investment.

Provided that the countries whose reserves are strongest take, in good time, the action which the situation demands and provided that those which are faced with the most serious difficulties take resolute steps to eliminate the domestic causes of their disequilibria, it may be hoped that the notable movement in progress towards an expansion of world trade and towards ever closer economic co-operation in Europe will not be halted by short-sighted measures of restriction, which would represent a serious retrogression. The expansion of trade, combined with the vigorous growth of saving, constitutes, in the modern world, both the condition and the guarantee of economic progress.

Respectfully submitted,

ROGER AUBOIN

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1958

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	558,297,790	25.0
Cash on hand and on sight account with banks	76,925,327	3.4
Redisable bills and acceptances		
Commercial bills and bankers' acceptances	167,616,666	7.5
Treasury bills	<u>392,127,830</u>	17.6
	559,744,496	
Sundry bills cashable on demand	30,396,275	1.4
Time deposits and advances		
Gold		
Between 3 and 6 months	6,907,475	0.3
Currencies		
Not exceeding 3 months	233,173,143	10.4
Between 3 and 6 months	32,214,700	1.4
Between 6 and 9 months	<u>30,858,198</u>	1.4
	303,153,516	
Other bills and securities		
Gold		
Not exceeding 3 months	33,184,018	1.5
Between 3 and 6 months	36,546,504	1.6
Currencies		
Not exceeding 3 months	376,431,591	16.9
Between 3 and 6 months	52,835,006	2.4
Between 6 and 9 months	7,313,445	0.3
Between 9 and 12 months	81,165,102	3.6
Over 1 year	<u>46,946,062</u>	2.1
	634,223,728	
Miscellaneous assets	1,317,105	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>66,291,223</u>	<u>3.1</u>
	<u>2,232,349,461</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)	173,648,817	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	538,490,742	
Bank balances	47,190,262	
Bills and other securities	1,088,738,227	

**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, 6th May 1958.

AS AT 31st MARCH 1958

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

LIABILITIES

			%
Capital			
Authorised and issued 200,000 shares, each of 2,500 gold francs	500,000,000		
of which 25% paid up		125,000,000	5.6
Reserves			
Legal Reserve Fund	8,320,213		
General Reserve Fund	13,342,650		
		21,662,863	1.0
Deposits (gold)			
Central Banks:			
Between 3 and 6 months	117,918,355		5.3
Not exceeding 3 months	263,175,278		12.7
Sight	17,530,429		0.8
Other depositors:			
Between 3 and 6 months	6,693,208		0.4
Not exceeding 3 months	122,900,378		5.5
Sight	3,769,861		0.2
		553,987,307	
Deposits (currencies)			
Central Banks:			
Over 1 year	36,020,414		1.6
Between 9 and 12 months	1,428,010		0.0
Between 6 and 9 months	3,098,032		0.1
Between 3 and 6 months	35,267,315		1.6
Not exceeding 3 months	866,547,357		38.8
Sight	50,936,996		2.3
Other depositors:			
Between 6 and 9 months	91,890,848		4.1
Between 3 and 6 months	168,936,542		7.6
Not exceeding 3 months	80,698,136		3.6
Sight	20,710,839		0.9
		1,355,534,489	
Miscellaneous		16,992,336	0.8
Profit and Loss Account			
Balance brought forward from the financial year ended			
31st March 1957	6,354,728		
Profit for the financial year ended 31st March 1958	9,317,736		
		15,672,466	0.7
Provision for contingencies		143,500,000	6.4
		<u>2,232,349,481</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		76,303,125	
		228,909,375	
Own funds employed in execution of the Agreements (see above)		68,291,223	
		<u>297,200,598</u>	
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 149,920,380 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 1958, 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 1958

		Gold francs
Net income from the use of the Bank's capital and the deposits entrusted to it		23,185,449
Commission earned as Trustee, etc.		<u>592,527</u>
		23,777,976
Costs of administration:		
Board of Directors — fees and travelling expenses ...	235,332	
Executives and staff — salaries, pension contributions and travelling expenses	3,932,344	
Rent, insurance, heating, electricity	37,791	
Renewals and repairs of buildings and equipment ...	104,209	
Consumable office supplies, books, publications, printing	326,645	
Telephone, telegraph and postage	141,569	
Experts fees (auditors, interpreters, economists, etc.)	65,613	
Cantonal taxation	35,632	
Miscellaneous	<u>149,775</u>	
	5,028,910	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Payments Union)	<u>568,672</u>	4,460,238
		19,317,738
The Board of Directors has decided that it is necessary to transfer to the provision for contingencies		<u>10,000,000</u>
NET PROFIT for the financial year ended 31st March 1958		<u>9,317,738</u>
Transfer to the Legal Reserve Fund — 5% of 9,317,738		<u>465,887</u>
		8,851,851
Balance brought forward from the preceding year		<u>6,354,728</u>
		15,206,579
Dividend of gold francs 37.50 per share, as recommended by the Board of Directors to the Annual General Meeting called for 9th June 1958		<u>7,500,000</u>
Balance carried forward		<u>7,706,579</u>

BOARD OF DIRECTORS

Maurice Frère, Brussels	Chairman of the Board of Directors, President of the Bank
Sir Otto Niemeyer, London	Vice-Chairman
Hubert Ansiaux, Brussels	
Wilfrid Baumgartner, Paris	
Karl Blessing, Frankfurt a/M.	
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	
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
Jan Knap	Sub-Manager