

**BANK FOR
INTERNATIONAL SETTLEMENTS**

TWENTY-NINTH ANNUAL REPORT

1st APRIL 1958 — 31st MARCH 1959

BASLE

8th June 1959

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TWENTY-NINTH ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held at

Basle on 8th June 1959.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the twenty-ninth financial year, which began on 1st April 1958 and ended on 31st March 1959. 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 1959. The year witnessed a further sharp rise in the funds placed at the disposal of the Bank.

The financial year closed with a surplus of 22,550,894 gold francs, against 19,317,738 gold francs for the previous year. After deduction of 13,000,000 gold francs transferred to the provision for contingencies, the net profit amounted to 9,550,894 gold francs, compared with 9,317,738 gold francs for the preceding year.

The Board of Directors recommends that the present General Meeting should again 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, and should carry forward the sum of 9,279,928 gold francs.

Chapter I of this Report gives a general survey of monetary and economic developments in 1958 and the early months of 1959. The succeeding chapters review recent changes in income and expenditure in various western European countries and the United States, as well as developments in the field of money and credit, domestic and world-market prices, foreign payments, gold production and monetary reserves, and foreign exchange rates and regulations. Chapter VIII deals with the final period of operations of the

European Payments Union, the liquidation of the Union and the coming into force of the European Monetary Agreement. Chapter IX describes the current activities of the Bank and gives 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 the European Investment Bank.

I. Survey of Monetary and Economic Developments.

Whereas towards the end of 1957 public authorities, business men and economists were greatly troubled by the sharp recession in the United States, the end of which was, in the opinion of most observers, still far off, and whereas, in addition, there was serious concern about the shortage of international liquidity and the fear of further price inflation in Europe still lingered in the minds of many, all three of these sources of anxiety were removed by developments in 1958. The American recession ended — earlier than had generally been expected — in the spring of 1958 and gave way to a vigorous revival, which, by the last quarter of the year, had raised the gross national product (in terms of constant prices) nearly to the peak reached in the preceding boom. The shortage of international liquidity was remedied, at least for the European countries, not so much by the decision to raise the quotas in the International Monetary Fund — a decision which still awaits the approval of some national parliaments — as by the acquisition by most of these countries of gold and dollars on an unprecedented scale. And price inflation in Europe came, at least temporarily, to a halt, the index of wholesale prices having either fallen during 1958 or remained stable and the cost-of-living index having almost everywhere shown a much smaller rise than in the previous year and in some countries having remained practically unchanged.

But if the problems which were uppermost in the minds of economists at the end of 1957 have thus receded into the background, others have taken their place.

The extraordinary improvement in the external liquidity position of most European countries and the cessation of price inflation were accompanied, and indeed caused, by a slowing-down of the rate of economic expansion, which in a few instances actually turned into an absolute decline, although nowhere, except in Italy — which is a special case — and Belgium, did unemployment exceed 3 per cent. of the labour force for any length of time.

The main problem for the coming year is undoubtedly how to get the European economies into higher gear again without endangering the stability of the price level and the convertibility for foreign residents which the accumulation of large foreign exchange reserves enabled European countries to introduce in the last days of 1958. With the American recession over and given the size of foreign exchange reserves in the hands of European monetary authorities, conditions are undoubtedly favourable for a new growth of the European economies.

* * *

Although the experience of 1957-58, like that of 1953-54, disproved the formerly widely-held belief that a downturn in the United States would

precipitate a still sharper downturn in Europe, it nevertheless remains true that the influence of developments on the other side of the Atlantic on economic conditions in Europe and the rest of the world is of the greatest importance. This can be sufficiently illustrated by pointing to the significance of a single factor: the deficit in the overall balance of payments of the United States — at least partly due to conditions in that country — and the resultant increase in reserves in Europe, which had such far-reaching effects on the economic situation and economic policy there. An analysis of developments in the United States is therefore indispensable for an understanding of what has happened in Europe.

In the United States the gross national product had begun to fall (in terms of constant prices) in the third quarter of 1957 and to climb again in the second quarter of 1958, whereas in the 1953-54 cycle the decline continued through four quarters. According to monthly figures for important economic indicators, the length of the declining phase was nine months in the last cycle and thirteen months in the previous one. The last downturn was, however, more precipitate than the earlier one, the gross national product, in terms of constant prices, having fallen by 5.6 per cent., against only 4 per cent. during the decline of 1953-54. On the other hand, the recovery was slower in the later upswing.

United States: Changes in the gross national product in two recessions (at constant prices).

Recession 1953-54		Recession 1957-58	
Quarters	Percentage change	Quarters	Percentage change
1953 1st	+ 1.9	1957 1st	+ 0.2
2nd	+ 1.2	2nd	+ 0.3
3rd	- 0.8	3rd	- 0.1
4th	- 1.7	4th	- 1.9
1954 1st	- 1.1	1958 1st	- 3.7
2nd	- 0.4	2nd	+ 0.2
3rd	+ 0.6	3rd	+ 2.2
4th	+ 2.1	4th	+ 2.7
1955 1st	+ 3.3	1959 1st	+ 2.6
2nd	+ 2.0		

The movement of the gross national product and of its main components in 1953-54 and 1957-58 is shown in the graph on the opposite page, which clearly reveals the similarities and differences in the decline and revival of economic activity in the two cycles.

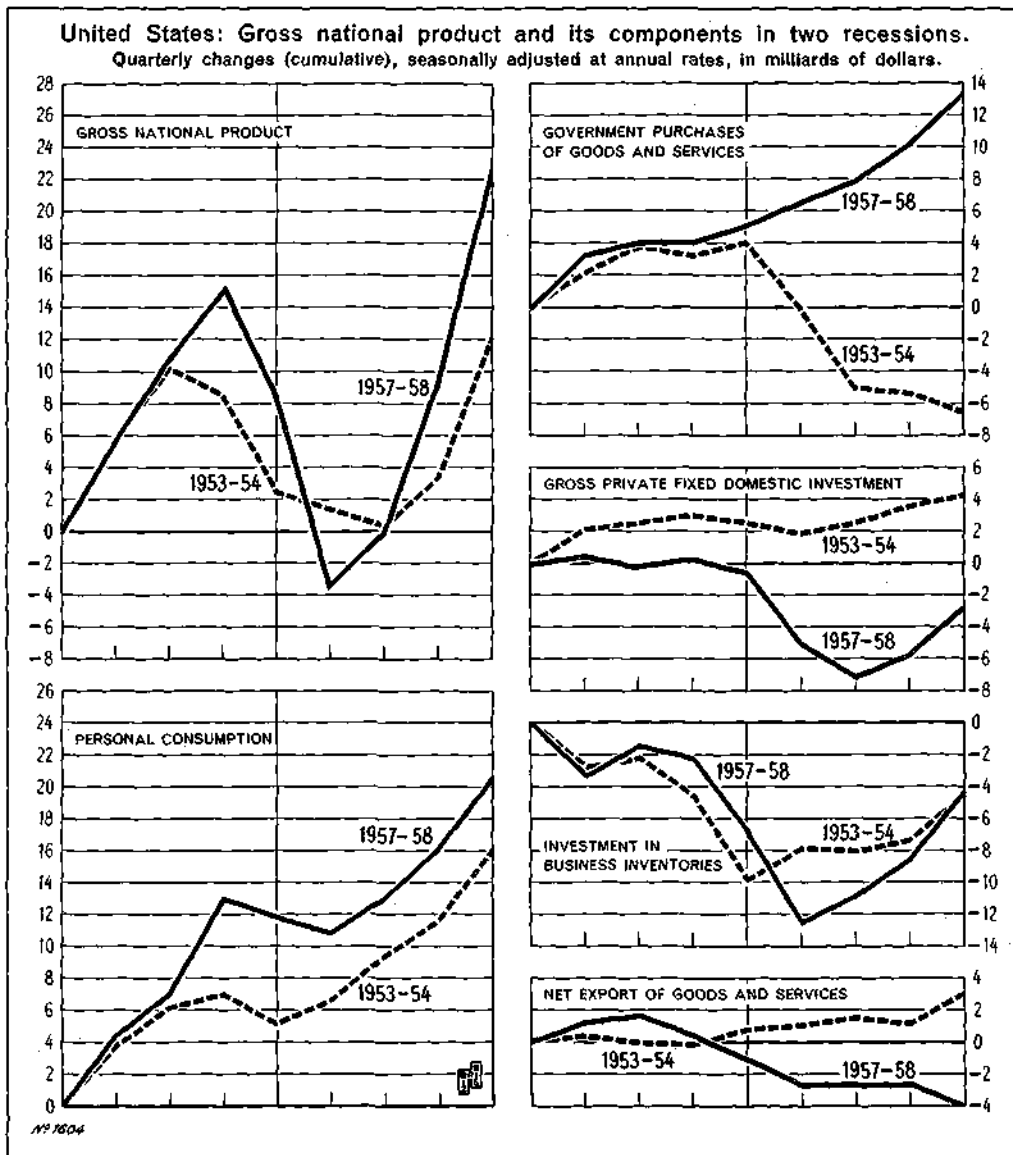
In both recessions investment in business inventories started to decline earlier than any of the other expenditure streams shown, although the movement was sharper during the recent cycle, both in the declining and the rising phase of the curve; and in both recessions personal consumption expenditure fell off very little. The differences between the two periods were that:

- (i) in 1954 the Federal and local governments, by reducing their expenditure, contributed to the decline, whereas in 1958, by increasing their expenditure, they acted in a counter-cyclical fashion;
- (ii) private domestic fixed investment fell (on an annual basis) by only \$1.1 milliard between the peak in the third quarter of 1953 and the

trough in the first quarter of 1954 but by no less than \$7.6 milliard between the first quarter of 1957 and the second quarter of 1958;

- (iii) net exports of goods and services had a stabilising influence in the first and a destabilising influence in the second recession.

The relative stability of personal consumption expenditure which, in spite of the fall in the national income, was observable in both periods, is a feature which will probably recur in future recessions. It is mainly accounted for by three factors characteristic of modern economic conditions: (i) the fall in the share of profits in the total national income which accompanies the decrease in the gross national product causes a decline in retained profits rather than in dividends; (ii) the system of progressive taxation causes disposable



income to fall relatively less than income before taxes; (iii) wages, far from falling, may even rise during a recession and unemployment benefits help to keep up consumption, while those who receive them cease to add to the national product. The converse is, of course, true in the upswing. Indeed, personal consumption, which amounted in the third quarter of 1957, i.e. just before the recession set in, to 64.7 per cent. of the gross national product, rose to 67.0 per cent. in the first and second quarters of 1958 and fell again to 65.3 per cent. in the last quarter of 1958 and to 64.5 per cent. in the first quarter of 1959. Within the total of personal consumption expenditure relative shifts occurred in 1957-58 away from durable goods and towards non-durable goods and services. Expenditure on services never declined at all but continued to rise steadily between the first quarter of 1957 and the first quarter of 1959.

Within the general category of investment expenditure, outlay on inventories was, in both cycles, the most volatile item. As a rule, when the rate of growth of the economy — and consequently that of sales — begins to slow down, investment in inventories tends to decline after a certain time-lag; and an actual unloading of inventories tends to begin when sales start falling and to continue until a normal relationship between inventories and sales is re-established. The events of 1957 and 1958 have borne out this rule. In manufacturing industry and in trade, for which monthly statistics are available, sales were more or less steady (on a seasonally adjusted basis) between January and August 1957, and investments in inventories, though still positive, were very small. From then until March 1958 sales declined; unloading of inventories began in October 1957, two months after the decline in sales, and continued until October 1958, when the ratio of inventories to monthly sales had returned to normal (1.53, compared with 1.54 in January 1957 and an average of 1.56 in 1956); and from then on inventory disinvestment gave way to investment. It is to be expected that, with the general growth of the economy, investment in inventories will continue during 1959, and this in turn will have a stimulating effect on general economic activity.

Gross private domestic fixed investment, at \$59.1 milliard, was 8.2 per cent. lower in 1958 than in 1957. The decline, which amounted to \$5.3 milliard, was wholly due to the fall in investment in producers' durable equipment, whereas new construction expenditure remained for the year 1958 as a whole at the same level as in 1957. The steep decline and the subsequent hesitant rise in expenditure on durable equipment must be ascribed to the creation of surplus capacity in the preceding boom during the three years from 1955 to 1957, when gross investment in producers' durable equipment amounted altogether to \$78 milliard. No figures are available regarding surplus capacity, but the fact that in 1955 the index of industrial production was, on the average, 139 and that in 1958, in spite of the large investments in the three preceding years, it was 134 is proof enough that there must have been considerable surplus capacity at the end of 1958. Its existence has at least one beneficial effect: if boom conditions develop, the possibility of increasing production quickly will help to prevent or slow down a general price rise.

Of the three sources of funds from which real gross investment (including inventories) can be financed — internal sources (depreciation allowances plus retained profits), short-term borrowing and new security issues — the first alone, in 1958, provided the corporations with amounts that exceeded their real investments. And yet new issues of securities totalled \$10 milliard — only slightly less than in 1957. The explanation of this striking phenomenon is that corporations used these long-term funds to increase their liquidity, firstly, by reducing their short-term indebtedness in the form of tax liabilities, trade credits and bank debts and, secondly, by building up their financial assets in the form of cash, government securities and net receivables.

United States: Uses and sources of corporate funds in 1958.

Uses		Sources	
in milliards of dollars			
Acquisition of		Depreciation allowances plus retained	
Real assets	22.0	profits	27.5
Financial assets	9.0	Short-term borrowing	— 4.0
Other assets	2.5	New security issues (net)	10.0
Total	33.5	Total	33.5

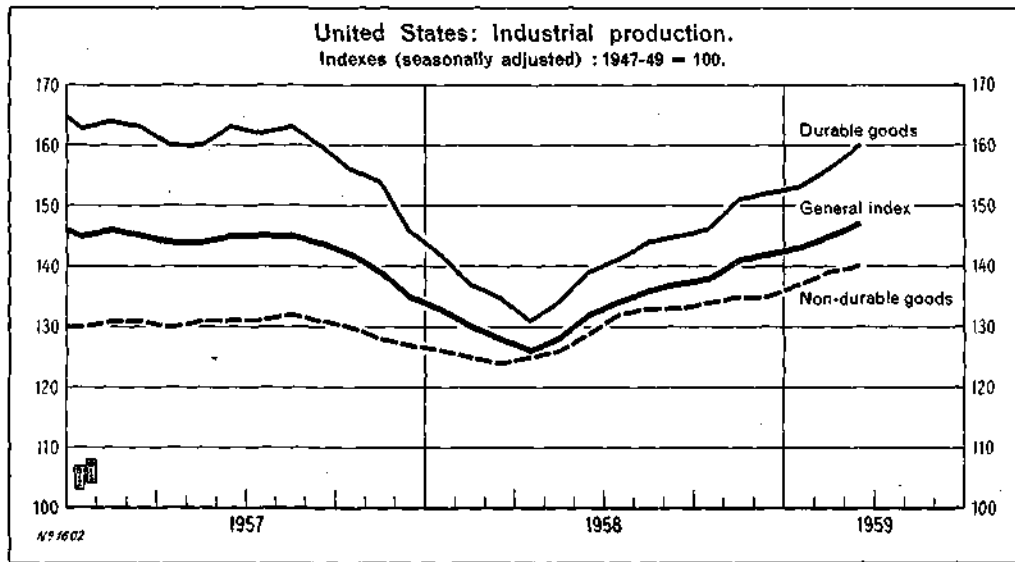
The counter-cyclical increase in the third expenditure stream, i.e. government purchases of goods and services, which rose by \$5.5 milliard in 1958, was financed by a rise both in Federal and in State and local-government indebtedness — a rise which, owing to the increase in transfer payments and the decline in revenue, was considerably larger than the growth in these purchases. The gross debt of the Federal Government increased in 1958 by \$8 milliard and State and local-government debt went up by \$4.2 milliard between June 1957 and June 1958. The buyers of the additional Federal securities issued were the commercial banks and the Federal Reserve Banks, whose combined purchases exceeded the total increase in the Federal debt.

The fourth component of total expenditure, i.e. net foreign demand, fell by \$3.5 milliard and thus contributed to the decline in total effective demand.

In conformity with the steadiness displayed throughout the cycle by personal consumption expenditure on non-durable goods and the relatively wide swing in expenditure on durable consumer goods and — particularly — durable investment goods, the index of production for non-durable manufactures shows much greater stability than that for durable manufactures.

The index of total industrial production, which had fallen by 13 per cent. between August 1957 and April 1958 (its lowest point), was at the end of the year almost back again to the August 1957 level.

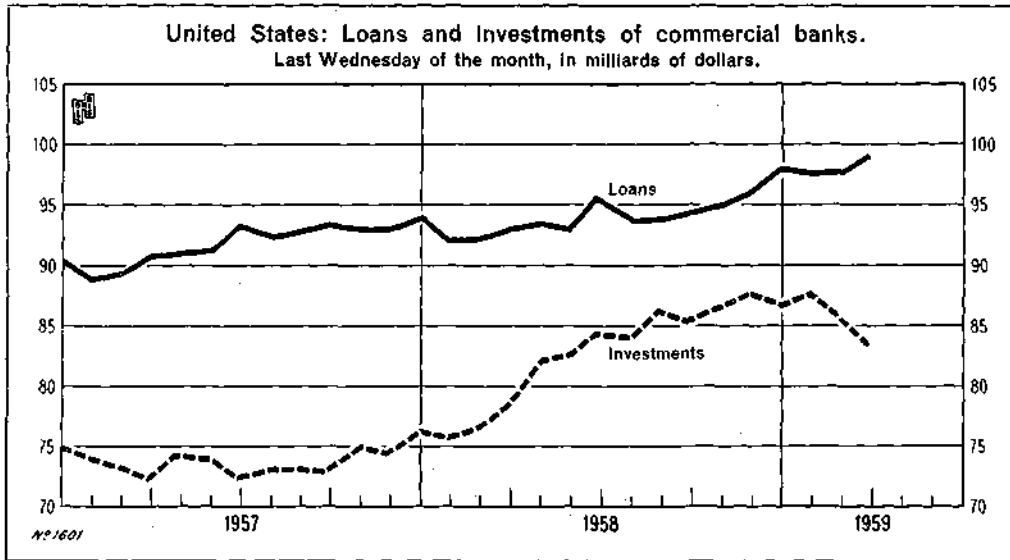
Total civilian employment showed less pronounced changes. It fell during the recession by 5.2 million, or 7.8 per cent., and rose again between February



1958 and the end of the year by 2 million, or 3.2 per cent.; unemployment fell in the latter period by 1 million to 4.1 million, which still constituted 6.1 per cent. of the labour force, against 7.5 per cent. at the highest point (on a seasonally adjusted basis) in April 1958.

The increase in average employment between the first and last quarter of 1958 (4 per cent.) was smaller than the increase in the gross national product (5.2 per cent., in terms of 1954 dollars) — a development which points to a rise in productivity per worker. More accurate calculations in respect of manufacturing industry support this conclusion. Whereas the working hours of productive workers in that sector of the economy increased by 9.4 per cent. between April 1958 (lowest point) and the end of the year, the index of manufacturing production rose in the same period by 12.5 per cent. The overall increase in productivity as suggested by the first broad comparison between total employment and the gross national product may be partly due to the fact that not all employees who can be dispensed with are actually dismissed in a recession, with the result that, when demand rises again, they can be put to work more intensively, and this, statistically, shows up as an increase in productivity. But the second comparison, based on the number of hours worked by productive workers alone, seems to justify the conclusion that technical improvements have also played an important rôle in increasing productivity.

Turning to monetary developments, the first thing that needs emphasising is the extraordinary increase during 1958 — of \$13.7 milliard — in the total deposits of all banks (demand and time deposits, excluding government and interbank deposits) — the greatest annual expansion since the end of the second world war. This increase had its counterpart in a rise of \$10.8 milliard in bank investments and an increase of \$6.2 milliard in loans, the difference of \$3.3 milliard between the increase in these two asset items and



that in deposits being accounted for mainly by a rise in the capital accounts of the banks and a decline in cash items. Of the \$10.8 milliard's worth of new bank investments, U.S. Government securities accounted for \$7.7 milliard, representing 87 per cent. of the increase (of \$8.8 milliard) in government paper in the hands of holders other than government agencies and trust funds. As the Federal Reserve System took over \$2.1 milliard of government securities during the year, non-bank holdings actually declined in 1958.

Interestingly enough, the behaviour of the public and the banks was very different in the two halves of 1958. In the first half the banks' purchases of government securities greatly exceeded the total increase in government debt and the public unloaded heavily. In the second half the increase in bank holdings of government paper was much smaller and the public, in particular business firms, took over the larger part of the increase in the national debt. Thus non-institutional investors, who had liquidated \$5.4 milliard's worth of Treasury bills in the first half of 1958, put \$5.9 milliard back again into Treasury bills in the second half. The main reason for the change between the two periods was undoubtedly that the rate on short-term paper was low in the first and relatively high in the second half of the year, whereas the rate on time deposits changed very little. At a time when the rate on Treasury bills was below 1 per cent. the rate on time deposits (three to six months) in New York was still 2 per cent. It was clearly profitable to shift from short-term government paper into time deposits in the first half and back again in the second half. This would also explain why time deposits increased in the first half of the year by \$6.5 milliard and in the second half by only \$2.9 milliard.

The increase in the public's holdings of deposits and Treasury bills during the year added to the liquidity of the private sector. The table on the next page gives a picture of the liquidity position of the U.S. economy

United States: Internal liquidity.

Periods	Currency and demand deposits ¹	Column 1 plus time deposits ²	Column 2 plus Treasury bills ³	Ratio to gross national product ⁴ of column			Addition to liquidity ⁵		
	1	2	3	1	2	3	1	2	3
	in milliards of dollars			in percentages			in milliards of dollars		
Average 1957 . .	134.5	188.4	209.5	30.5	42.8	47.6	—	—	—
Average 1958 . .	136.2	197.1	215.6	31.1	45.0	49.3	2.5	9.8	7.3
1958 1st quarter	133.1	190.8	211.1	31.2	44.7	49.4	2.6	8.0	7.9
2nd quarter	135.3	196.0	212.3	31.4	45.5	49.3	3.8	11.8	7.5
3rd quarter	137.2	199.8	216.7	31.2	45.4	49.3	2.8	11.6	7.4
4th quarter	138.8	201.5	221.8	30.6	44.5	49.0	0.4	7.7	6.3

¹ Seasonally adjusted. ² Time deposits of commercial banks. ³ Treasury bills held by non-financial investors. ⁴ Gross national product on a yearly basis, seasonally adjusted. ⁵ The figures represent the absolute increase in liquidity compared with a situation in which the ratio of liquid reserves to gross national product existing in 1957 would have been maintained throughout 1958.

(excluding the banks). The last three columns show the additional liquidity in absolute terms; this is calculated as the difference between the existing total liquidity and that which would have been required for the liquidity ratio of 1957 to be maintained throughout 1958.

The ratio by which the liquidity of the economic system is customarily judged is that of the money supply (currency in circulation plus demand deposits) to the gross national product. This ratio was in 1958 only slightly higher than in 1957, so that from this point of view the liquidity of the system does not appear to have increased much. But it does not seem appropriate to concentrate only on this one relationship. For the purposes of monetary policy the two other ratios shown in the table, which include time deposits and Treasury bills in the numerator, are just as important. The reason is that both time deposits and Treasury bills, if "activated", will tend to increase the money supply. If business firms mobilise secondary liquidity reserves for investment purposes by drawing on their time deposits, demand deposits will increase. If they do so by letting Treasury bills run off, the government will have to sell the new bills, intended to replace the old ones, to the banking system and the central bank will have to pursue a policy which enables the banks to buy them, with the result that the money supply will expand — unless the central bank, by applying restrictive measures and letting interest rates rise, induces the banks to limit the expansion of private credit. Time deposits and short-term government paper can thus be potential money not only from the point of view of the individuals and firms possessing them but also from the point of view of the economic system as a whole. And although it is true that placing short-term government paper outside the banking system is — provided the public does not acquire the securities with previously idle funds — for the time being "non-inflationary", it may become a source of inflation later on.

Admittedly, the line of demarcation that is drawn here by the use of the third of the three liquidity ratios is somewhat artificial. Even the liquidation of long-term paper held by the public can have the same effect as the liquidation of Treasury bills. If, for instance, the liquidation of such paper

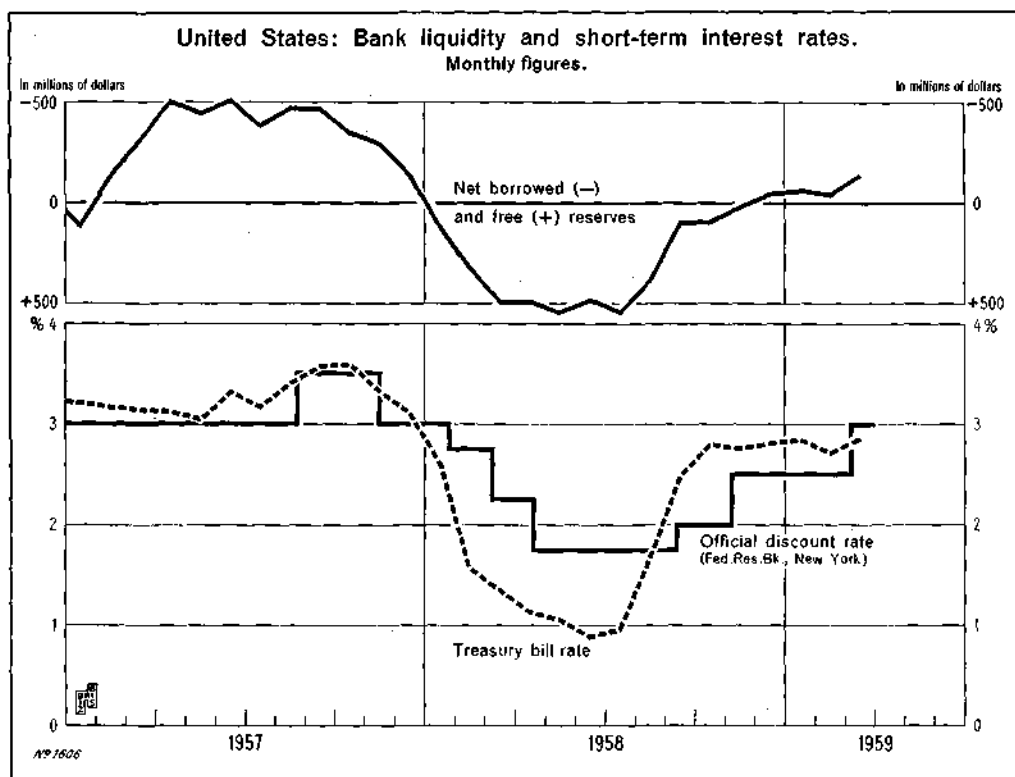
leads to a fall in security prices, the government, if it does not want to sell securities on a declining market and thus contribute to a further rise in the long-term rate, may shift to short-term financing through the banks or may sell part of the long-term issues to the central bank. This point is well illustrated by events in 1958, when the government had frequent recourse to short-term financing of the new public debt, because it was unwilling to place long-term securities on a declining market, and when (on 18th July) the Open Market Committee of the Federal Reserve System, in order to avoid a further fall in the prices of government securities, authorised — contrary to its normal practice — the purchase of long-term securities. Nevertheless, it would be going too far to regard such action by the monetary authorities as inherently necessary, and the distinguishing line drawn here seems better justified than any other.

Liquidity as measured by the money supply plus time deposits was on the average \$9.8 milliard higher in 1958 than in 1957, and \$7.3 milliard higher if Treasury bills are included; the corresponding figures for the last quarter were \$7.7 and 6.3 milliard — figures which measure what might be termed the "inflationary potential". It must be taken into consideration, however, that 1957 was a year of tight liquidity, so that the addition to the liquidity of the economic system in 1958 must to some extent be regarded as a return to more normal conditions. Even so, one has to go back to 1954 to find a year for which the last liquidity ratio given in the table on page 10 was higher than that for 1958. For all the intervening years it was lower.

In the autumn of 1957, when there could no longer be any doubt that a recession was developing, the Federal Reserve System took action to ease the credit situation. By making open-market purchases of government securities and by lowering reserve requirements in four stages between February and April 1958, it provided the banking system with more reserves than were necessary to compensate for the absorption of reserves due chiefly to the outflow of gold, so that the banks were able to reduce their indebtedness to the Federal Reserve Banks, which, on a monthly average, had stood at over \$1 milliard in August 1957, to \$109 million in July 1958 and, in addition, to increase their excess reserves by \$120 million, in spite of the extraordinary simultaneous expansion of deposits resulting mainly from an increase in bank investments. At the same time the discount rate was reduced in several stages from 3½ per cent. in November 1957 to 1¾ per cent. in April 1958 — a rate which was maintained until September of that year.

From then on the Federal Reserve System — interpreting certain phenomena in the economy, such as the extraordinary rise in stock prices, the unloading of fixed-interest-bearing securities by the public and the growth in the budget deficit, as signs of an inflationary danger — reverted to a more cautious policy and began to restrict the availability of reserve funds. Between July 1958 and March 1959 its purchases of open-market paper were less than the absorption of reserves due to the gold outflow. As credit

expansion — now mainly in the form of loans — continued, the monthly average of excess reserves was reduced by almost \$200 million and borrowing by the banks from the Federal Reserve Banks increased by \$492 million. In support of this restrictive policy the discount rate was raised from $1\frac{3}{4}$ per cent. in September to (finally) $3\frac{1}{2}$ per cent. late in May 1959; and the Federal Government, backing up this line of action, submitted a balanced budget for the fiscal year 1959-60.



The effect of this policy on the Treasury bill rate can clearly be seen from the above graph. In 1957 the Treasury bill rate was determined by the discount rate, staying slightly above it. When the commercial banks are heavily indebted to the Federal Reserve Banks, as they were in that year, the Treasury bill rate cannot fall below the discount rate, since otherwise a bank would always find it to its advantage to acquire cash by letting bills run off rather than by rediscounting. And, for the opposite reason, the Treasury bill rate will not rise far above the discount rate as long as the commercial banks are willing and able to refinance themselves through the Federal Reserve Banks. In 1958, when the "free reserves" (excess reserves minus borrowing from the Federal Reserve Banks) became positive, the Treasury bill rate followed the movement of the free reserves. Owing to the fact that the banks did not need to have recourse to the central bank, the Treasury bill rate cut loose from the discount rate and fell considerably below it. From the autumn of 1958 onwards the relationship which had existed

between the Treasury bill rate and the discount rate in 1957 tended to re-establish itself. As usual, the rate on long-term government bonds, though following the movements of the short-term rate, fluctuated much less; from its peak of 3.76 per cent. in the middle of October 1957 it fell to a low of 3.07 per cent. at the end of April 1958 and then rose again to 4.05 per cent. at the end of April 1959; it should, however, be noted that this rapid rise of the long-term rate above the previous peak had no counterpart in the revival of 1954. It is partly an expression of inflation-mindedness on the part of the public, which showed a definite preference for shares, whose yields in terms of the dividend/price ratio fell below the yield on long-term securities by September 1958.

The revival of economic activity from April 1958 onwards was not accompanied by a rise in the price level. Although the wholesale-price index was, on an average, 1.4 per cent. higher in 1958 than in 1957, this increase was in fact almost entirely due to the price rise which occurred in the second half of 1957; between December 1957 and December 1958 the index remained practically stable. The consumer-price index rose in the same period by 1.7 per cent., owing mainly to an increase in the price of services. Average hourly gross earnings in manufacturing industry went up by roughly 4 per cent., but the rise in productivity was apparently such that the wage increase did not have to be passed on in the form of higher prices in order to cover costs; as, moreover, business profits were considerably higher in the last quarter of 1958 than they had been in the first quarter, it is clear that no inflationary tendencies emanated from the cost side.

Since, in view of the existence of surplus capacity and the still considerable number of workers unemployed, output could quickly be increased, it would seem that there could be a rapid economic expansion which would absorb the liquidity existing early in 1959. It is to be hoped that the budget will be successfully balanced and that central-bank policy will not be thwarted by excessive wage demands, so that the growth of the economy can be achieved without a renewal of inflationary tendencies.

* * *

In Europe the rate of expansion slowed down everywhere. But this decline in the rate of growth cannot be attributed to the American recession. European exports to the United States increased in 1958, and there was in fact an improvement in foreign demand for European products which helped to sustain the level of economic activity. Such slackening as there was in the rate of expansion must be ascribed to internal causes and was the result of the same forces which, in some European countries, were already at work in 1957, when these economies experienced the first decline in the rate of expansion since the height of the boom in 1956.

The table on the next page shows the percentage changes in the gross national product in terms of constant prices in the three years 1956-58 for a

Increases in the gross national product
(at constant prices).

Countries	1956	1957	1958
	in percentages		
Austria	5.4	5.5	3.4
Belgium	4.8	1.5	0.5
Denmark	2.0	5.4	1.1
Finland	1.4	0.7	- 1.0
France	5.2	6.1	2.1
Germany	6.4	5.0	2.8
Italy	4.0	5.6	4.1
Netherlands	3.9	2.4	0.9
Norway	4.4	2.9	- 0.9
Sweden	3.5	4.2	1.0
Switzerland	5.4	3.6	1.7
United Kingdom	1.7	1.0	- 0.6

number of European countries. In all of them the rate of growth was slower in 1958 than in 1957; and in the majority of cases, where the changes in the gross national product remained between plus and minus 1 per cent., expansion had practically come to a halt. But in none of these countries did a really serious depression develop; nowhere did the unemployment figure increase to the same extent as it had done in the United States.

The changes in industrial production reflect the same tendencies. For the year 1958 as a whole industrial production was above the 1957 level in Austria, France, Germany and Italy, remained roughly the same in the Netherlands, Sweden and the United Kingdom and fell markedly below the previous year's performance only in Belgium. During the year 1958 and the first quarter of 1959 the tendency was upwards only in Italy (from May 1958 onwards on a seasonally adjusted basis), the Netherlands (from March onwards) and Germany (from January 1959 onwards), more or less stable in Austria, Sweden and the United Kingdom and definitely downwards in Belgium and France. In the last-mentioned country the decline was the inevitable reaction to the exceptionally high rate of growth in the previous years, which had come to an end as soon as vigorous action was taken to stop the inflation that had accompanied the process of expansion.

The various expenditure streams that go to make up the gross national product were not all equally responsible for the slackening of effective demand in Europe in 1958. The demand arising from the accumulation of inventories underwent an absolute decline in most countries, the exceptions being France, Italy and Germany; in the latter country it just maintained the level reached in 1957. The increase in the accumulation of inventories in Italy was entirely due to a rise in agricultural inventories (including cattle), mainly as a result of the bumper crops in 1958. Investment in industrial inventories not only declined but actually became negative in the sense that inventories were unloaded. The same was true of inventories in the three Scandinavian countries. Nowhere, however, did the decline in investment in inventories cause a reduction in total demand in terms of current values (except in Norway and the Netherlands), since other expenditure streams still continued to grow, although more slowly than in 1957.

The increase in gross fixed investment accelerated in 1958 only in Germany and Norway; in all other countries the annual rate of growth slackened; in Italy the upward movement came to a standstill and in the

Increases in the gross national product and its components, 1957-58.

Countries	Years	Consumption	Gross fixed domestic investment	Investment in inventories ¹	Net foreign balance	Gross national product
		round figures, in millions of national currency units,* at current prices				
Austria	1957	7,900	2,600	400	300	11,200
	1958	5,100	1,600	— 500	900	7,100
Denmark	1957	1,020	580	180	400	2,190
	1958	970	170	— 750	590	980
France	1957	1,610	600	— 30	— 30	2,150
	1958	1,980	440	210	200	2,830
Germany	1957	11,000	1,800	1,600	1,700	16,200
	1958	9,000	3,100	—	600	12,700
Italy	1957	590	390	— 20	65	1,025
	1958	575	— 5	30	315	915
Netherlands	1957	1,380	770	490	210	2,850
	1958	520	— 630	— 880	2,070	1,080
Norway	1957	1,120	970	— 250	120	1,970
	1958	790	1,100	— 600	— 1,450	— 150
Sweden	1957	2,550	1,290	590	— 30	4,400
	1958	2,410	1,250	— 1,490	— 50	2,120
United Kingdom	1957	760	280	80	60	1,190
	1958	870	100	— 280	200	890

* For France and Italy, in milliards. ¹ The minus sign indicates a decline in investment in inventories but not necessarily a liquidation of inventories.

Netherlands there was a decline. In all the countries for which separate figures are available for public and private investment, the share of both in the total is found to have remained practically constant.

Although investment in fixed capital was, except in the Netherlands, greater in 1958 than in 1957 (or at least did not decrease), the private sector had less recourse to the capital market, except in Germany and Norway — the two

Capital-market issues by the private sector.¹

Countries	Years	Shares	Bonds	Total
		in millions of national currency units*		
Belgium	1957	6,160	2,640	8,800
	1958	3,430	2,080	5,510
France	1957	258	59	317
	1958	194	92	286
Germany	1957	1,630	1,120	2,750
	1958	1,140	1,930	3,070
Italy	1957	238	241	479
	1958	340	439	779
Netherlands	1957	60	380	440
	1958	900 ²	240	1,140
Norway	1957	120	160	280
	1958	140	180	320
Sweden	1957	200	100	300
	1958	150	60	210
United Kingdom	1957	160	180	340
	1958	90	100	190

* For France and Italy, in milliards. ¹ Including issues by financial institutions. ² Including an issue by the Royal Dutch Petroleum Company of some Fl. 857 million. About 25 per cent. of this amount was taken up by the Dutch capital market.

countries where the rate of growth of fixed investment was higher in 1958 than in 1957 — and in Italy. The very large figure for the Netherlands is almost entirely accounted for by the fact that the Royal Dutch Petroleum Company issued some Fl. 867 million's worth of stock last year, of which roughly 25 per cent. was taken up by the Dutch capital market. If this issue is excluded, the Netherlands must be classified among the countries which made less use of the capital market in 1958 than in the previous year.

Consumption also continued to grow at a slower pace than in the previous year in all countries except the United Kingdom and France; in the case of France, however, the figure for 1958 was considerably swollen by the price rise that took place in that year. Again, nowhere except in France was there a noteworthy change in the share of public and private consumption in the total. In France the share of public consumption fell — a reflection of the French Government's effort to reduce the budget deficit. In most countries the rate of growth of consumption expenditure kept up better than that of total investment expenditure; presumably the reasons given for the stability of consumption in the United States apply, *mutatis mutandis*, here also.

Whereas in the majority of countries both consumption and total investment increased less than in 1957, the net foreign balance increased more (except in Germany, Norway and Sweden). In countries which are heavily dependent on foreign trade, such as the Netherlands, the contribution made by the improvement in the foreign trade balance was vital for the maintenance of economic activity.

To sum up, it may be said that the forces that caused the slowing-down of economic activity in Europe — namely the decline in investment in inventories and the easing-off of the rise or the actual decrease in investment in fixed equipment — were the same as those which had been responsible for the absolute fall in the gross national product in the United States but that the movement in the net foreign balance, which in the United States had contributed to the decline, was in Europe, on the whole, a factor helping to sustain economic activity.

Monetary developments in most European countries were largely dominated by these countries' balance-of-payments surpluses. The causal sequence of events can be described, in general terms, roughly as follows.

A decline in demand for the purpose of investment in inventories or fixed assets caused, or at least accompanied, by a desire for greater liquidity on the part of business and, possibly, by a slackening in demand for bank credit leads, as a rule, to a reduction in imports. If total internal demand also slackens relatively to that in other countries, there may in addition be an increase in the volume of exports. The improvement in the balance of payments on current account due to one or both of these reasons may be magnified — or, in the absence of these two causes, such an improvement may even be entirely brought about — by an improvement

in the terms of trade, which appears to each individual country as an exogenous factor but may be partly the result of a decline in the imports of a whole group of countries. The surplus on current account, provided that it is not offset by a correspondingly large export of capital, will cause an accumulation of foreign assets in the hands of the monetary authorities. This accumulation in turn creates internal liquidity, i.e. supplies the additional liquidity which the private non-bank sector desired in the first place. The increase in liquidity can take the form either of a reduction in bank debts or of an accumulation of cash balances and time deposits, or both; and in countries in which business firms customarily hold Treasury bills as secondary liquidity reserves, it can also take the form of a growth in holdings of such bills. The addition to primary and secondary liquidity will have as its main counterpart the acquisition of foreign assets by the banking system (including the central bank), while the latter's claim on the private sector will decline — if bank debts are reduced — or grow at a slower rate than before.

Owing to the accumulation of foreign assets, the commercial-banking system will also become more liquid. And, similarly to what happens in the private non-bank sector, this increase in liquidity will be reflected either in a reduction in the commercial banks' indebtedness to the central bank or in their acquisition of cash reserves in the form of deposits with the central bank, or in both these ways. As a result of the greater liquidity of the private sector and — more important — of the commercial-banking system, the short-term interest rate will fall, and with it the long-term rate, although not to the same degree. It can be shown, step by step, that this general pattern of development applies, with appropriate variations, to most European countries.

The following table presents the changes in the gross national product, in investment in inventories and in imports in 1958 compared with 1957. It

Changes in imports, investment in inventories and the gross national product between 1957 and 1958.

Countries	Changes in imports		Changes in investment in inventories ¹	Percentage changes, at constant prices,	
	at current prices	at constant 1957 prices		in imports	in gross national product
	in millions of U.S. dollars			in percentages	
Austria	- 56	+ 20	- 19	+ 1.7	+ 3.4
Belgium	- 325	- 144	.	- 4.2	+ 0.5
France	- 563	- 855	+ 502	- 1.5	+ 2.1
Germany	- 135	+ 563	-	+ 7.5	+ 2.6
Italy	- 505	- 229	+ 51	- 6.2	+ 4.1
Netherlands	- 480	- 265	- 232	- 6.5	+ 0.9
Norway	- 72 ²	- 2 ²	- 84	- 0.2 ²	- 0.9
Sweden	- 71	+ 48	- 288	+ 1.8	+ 1.0
Switzerland	- 259	- 194	.	- 9.2	+ 1.7
United Kingdom	- 816	+ 35	- 784	+ 0.3	- 0.6

¹ Value of physical change in stocks.

² Excluding ships.

shows once more (see also the table on page 14) that in all the countries listed the level of economic activity, as measured by the gross national product (in terms of constant prices), was either higher in 1958 or practically unchanged, so that the volume of imports might have been expected to increase or remain constant. The last two columns show that the volume of imports did in fact increase with the gross national product in Austria, Germany and Sweden and that both imports and the gross national product remained roughly stable in the United Kingdom and Norway. In France, Italy, the Netherlands and Switzerland the volume of imports declined in spite of the increase in or stability of the gross national product. In France this was undoubtedly due to import restrictions. In the other three countries it was the decrease in investment in inventories that was responsible for the decline. It must be remembered that in Italy the rise in investment in inventories took place in agriculture; industrial inventories were actually reduced, and this decline contributed to the fall in the volume of imports. Although no figures for changes in inventories are yet available for Switzerland, it is well known that here, too — and probably also in Belgium — inventory investment decreased.

If the value figures are examined, the imports of Germany and Austria are also seen to have fallen compared with 1957, while the decline in imports is found to be greatly intensified in all the other countries with the exception of France, where the devaluation caused the fall in the value of imports to be smaller than that in their volume.

Summing up, the decline in import prices, either by itself or in combination with a reduction in the volume of imports caused by a decrease in inventory accumulation, greatly reduced the value of the imports of all European countries.

Exports (in terms of value) increased only in Denmark, Germany and the Netherlands. The reasons, however, were different in the three countries. In the Netherlands and Denmark the fact that internal demand slackened more than in most other countries led to a shift to exports. In Germany, where the rate of growth in 1958 was much higher than the average, this reason cannot apply. The increase there was a continuation of a trend that has been observable for a number of years. In the case of the other countries exports remained roughly stable or fell somewhat, though much less than imports — except in Norway, where, if ships are included, imports are found to have risen in 1958.

The improvement in the balance of trade brought with it an improvement in the balance of payments on current account, except again in Norway, where a large trade deficit was aggravated by a fall in freight rates, and in Sweden, where the freight factor more than offset the improvement in the trade balance.

The change for the better which took place in the current-account balance of all the western European countries (except the two Scandinavian

ones just mentioned) led to an accumulation of foreign exchange in the hands of the monetary authorities. Capital movements, of course, played their part too, sometimes reducing the total of foreign exchange acquired to a level below that of the surplus on current account (as in the case of Germany, which exported a large amount of capital) and sometimes raising it to a level above that of the surplus or even by themselves causing an acquisition of foreign exchange (as in the case of Norway, which, owing to heavy capital imports in 1958, accumulated foreign reserves in spite of a huge deficit on current account).

The increase in liquidity in the private non-bank sector — which, as will be seen later on, was in 1958 largely attributable to the accumulation of foreign assets — is shown in the table below, for 1957 and 1958, for a number of European countries, both in absolute terms and as a ratio of the gross national product. If liquidity is measured solely by the ratio of the money supply to the gross national product, it is found that the tendency is not uniform. In six out of the ten countries listed in the table the ratio was relatively stable; in the United Kingdom and France it fell, while in Germany and Switzerland it rose.

Internal liquidity in 1957 and 1958.

Countries	Money supply		Column 1 plus quasi-money ¹		Column 1 as a percentage of gross national product		Column 2 as a percentage of gross national product	
	1957	1958	1957	1958	1957	1958	1957	1958
	yearly averages (round figures), in millions of national currency units*				in percentages			
	1		2		3		4	
Austria . . .	31,490	34,440	46,430	54,080	25.8	26.7	36.1	42.0
Belgium . . .	196,600	202,000	222,700	230,900	36.6	36.7	41.4	42.0
France . . .	6,730	7,160	7,070	7,570	32.4	30.4	34.1	32.1
Germany . . .	32,700	37,000	66,400	78,300	15.6	16.6	31.7	35.2
Italy	4,340	4,740	7,460	8,440	29.0	29.9	49.8	53.1
Netherlands .	9,090	9,490	11,290	12,140	26.0	26.4	32.2	33.6
Norway . . .	6,200	6,230	15,640	15,950	19.8	20.0	49.9	51.1
Sweden . . .	11,410	11,520	21,070	22,560	19.8	19.3	36.6	37.6
Switzerland .	14,430	15,320	27,230	29,110	46.1	47.1	87.0	89.6
United Kingdom .	5,520	5,440	7,980	8,240	25.2	23.9	36.5	36.2

* For France and Italy, in milliards. ¹ The figures in this column are not comparable as between countries.

If, however, secondary liquidity reserves ("quasi-money") are included, the liquidity ratio is seen to have risen perceptibly in all countries except France and the United Kingdom.

In order to discover the causes of the change in liquidity, it is necessary to trace the movement of the bank assets which form the counterpart of the liquid reserves of the private non-bank sector. This is done in the table on the next page. The bank assets are divided into four sub-groups: foreign assets, net claims on the government, claims on the private sector and unclassified items. The figures for the third sub-group are net in the sense that they

represent the difference between the claims of the banking system on the private non-bank sector and its liabilities to this sector, except, of course, those liabilities (i.e. deposits) which constitute the liquid reserves of the latter. In contrast to the first table, where for the purpose of calculating the ratio of liquid reserves to the gross national product the yearly average of the liquid reserves had to be taken for both years, the second table shows the change which occurred during each of the two years.

What strikes the eye most in the table is the contrasting development of the contribution to liquidity made by the acquisition of foreign assets, on the one hand, and of that made by the acquisition of claims on the private sector by the banking system, on the other. In all countries except Germany (where the increase in foreign assets had been even larger in 1957) foreign assets contributed more to liquidity in 1958 than in 1957 and claims on the private sector less, except again in Germany, in Norway (where the government absorbed liquidity) and in Sweden. In Belgium and the Netherlands such claims even fell absolutely, indicating an increase in the internal liquidity of the private non-bank sector in the form of a reduction in bank debts. In four countries (Austria, Belgium, Italy and the Netherlands) the contribution made by foreign assets was actually greater than that made by the claims of the banking system on the private sector.

The figures thus seem to confirm the causal connection described above. The slackening of economic activity accompanied by an increase in the desire for liquidity and a decline in the demand for bank credit or, at least, in

Increases in bank assets¹ and money plus quasi-money
In 1957 and 1958.

Countries	Years	Foreign assets	Net claims on the government	Net claims on the private sector	Changes in unclassified items	Total = money plus quasi-money
Austria	1957	2,810	270	3,400	40	8,520
	1958	4,180	610	2,480	1,200	8,470
Belgium	1957	1,900	- 3,200	2,800	- 700	800
	1958	15,800	8,500	- 10,000	600	14,900
France	1957	- 400	600	550	- 30	720
	1958	20	100	340	- 20	440
Germany	1957	5,400	800	7,300	- 2,300	11,200
	1958	3,600	2,500	8,400	- 3,000	11,500
Italy	1957	190	100	580	- 80	770
	1958	590	310	530	- 190	1,240
Netherlands	1957	- 270	210	190	-	130
	1958	2,250	- 340	- 200	- 150	1,560
Norway	1957	220	210	350	- 210	570
	1958	240	- 610	670	10	310
Sweden	1957	70	1,330	180	- 90	1,490
	1958	150	1,120	860	- 230	1,900
Switzerland	1957	110	710	1,170	- 590	1,400
	1958	590	540	830	600	2,660

* For France and Italy, in milliards.

¹ Including those of central banks. The figures are not comparable as between countries.

its rate of growth led, via the surplus in the balance of payments, to the acquisition of foreign assets and thus created additional liquidity in a form which, in contrast to the "liquidity" created by private bank credit, has its counterpart not in indebtedness of the private sector to the banks but in claims on the rest of the world.

In most of the countries which acquired an abnormally large amount of foreign assets, the commercial-banking system also became more liquid, and this helped to bring down interest rates. In Germany, for instance, in a process which — owing to the consistent acquisition of foreign assets — had started as early as 1956, the indebtedness of the commercial banks to the central bank was reduced from a peak of DM 5.2 milliard in March 1956 to about DM 1.0 milliard at the end of 1958, while their deposits with the central bank increased by DM 4.7 milliard over the same period, despite two reductions in the reserve requirements in 1957; and the Treasury bill rate came down between the middle of 1956 and the end of 1958 from above 5 to $2\frac{3}{8}$ per cent. In the Netherlands and Belgium also, the banks' indebtedness to the central bank declined, the cash reserves of the banks increased and the Treasury bill rate fell. In Italy the ratio that is used in that country as a measure of the liquidity of the banking system rose from 6 per cent. in December 1957 to 12 per cent. in December 1958; and there, too, the interest rate came down. Similar relationships could be shown for other countries where a suitable index of bank liquidity can be constructed. One exception must, however, be pointed out. It is customary to measure the liquidity of the British banking system by the so-called "liquid assets ratio", i.e. the ratio of cash plus call money and bills to deposits. According to this measure, the liquidity of the London clearing banks fell in 1958 from 37.8 in January 1958 to 32.3 in February 1959 — and so did the Treasury bill rate, declining from 6.3 to 3.1 per cent. over the same period — so that in the United Kingdom the interest rate and liquidity were correlated positively and not negatively. The main reason for the fall in the Treasury bill rate in 1958 was the decline of £330 million in the outstanding amount of Treasury bills; as a result of this decline the holdings of the London clearing banks also went down (by £220 million) and this, in turn, caused a fall in their liquid assets ratio, so that this ratio decreased simultaneously with the Treasury bill rate.

The illustrations given for countries other than the United Kingdom may suffice to prove the connection between the fall in the interest rate and the increase in the liquidity of the banks, which, in 1958, was in most countries mainly due to the foreign surplus. The graph in Chapter III shows, for a number of European countries, the United States and Canada, the movement of interest rates, including the official discount rate, which, in most cases where the banking system became more liquid as a result of the foreign surplus, followed rather than led the market.

It can be seen that the long-term rate declined in all countries where there was a fall in the short-term rate. The sharpest declines in 1957 and 1958 occurred in Belgium and Germany; in the latter country the easing of

the money market helped to bring down the long-term rate in the capital market from a high of 6.4 per cent. to around 5 per cent. — a movement which put an end to a former anomaly for a capital-exporting country, namely the existence of a long-term rate higher than that in other countries. No clear pattern emerged in France during the first half of 1958, but towards the end of the year interest rates in that country began to join the general downward movement — a trend which continued in the early months of 1959.

Wholesale prices in the European countries were on the average either lower in 1958 than in 1957 or roughly the same. The cost-of-living index was in all countries (except the Netherlands) above its 1957 level, but — save in a few cases — the index at the end of the year was almost the same as at the beginning, or even lower. Wages, however, continued to rise everywhere (see graph on prices and wages in Chapter IV). The absence of a “price effect” of the rise in wages must be attributed firstly to the rise in productivity, which took place in some, though not all, countries, and secondly to the sharp fall in import prices, which reduced other costs of production for business firms. In other words, labour reaped the benefit of the improvement in the terms of trade.

In most countries during 1958 — or, perhaps more accurately, during the second part of that year — economic and monetary policy was directed towards stimulating effective demand. The foreign surplus was allowed to have an effect on the liquidity of the banking system; discount rates were lowered, in conformity with the tendency of the market, and credit conditions were made easier. In some countries the public authorities went further than this in their counter-cyclical policy; this was particularly the case in the United Kingdom, where initial allowances were raised to 30 per cent., the ceiling on bank credit and the restrictions on hire-purchase were removed, larger public investment programmes were initiated, active support was given to areas with relatively heavy unemployment, and an “expansionist” budget was submitted to Parliament in April 1959.

An exception to the rule is France, which had special problems of its own to solve. That country, intent on stopping further inflation, pursued a restrictive policy which finally culminated in the adoption at the end of 1958 of a set of radical, co-ordinated measures comprising a devaluation of the franc by 15 per cent., an attack on the budget deficit (mainly by the removal of a large number of subsidies) and, in order to keep down the price rise which was bound to follow in the wake of these two measures, a return to a 90 per cent. liberalisation of imports from O.E.E.C. countries. The success of these measures, as demonstrated by the inflow of gold and foreign exchange, enabled the banks to rebuild their liquid reserves; in two steps (February and April 1959) the Bank of France reduced the discount rate from 4½ to 4 per cent., and in March and April the penalty rates for exceeding rediscount ceilings were lowered from 7 and 10 per cent. to 5½ and 7 per cent.

In the first quarter of 1959 the prospects of an upturn in economic activity in Europe seemed favourable: the U.S. recession was over; the

process of inventory liquidation had probably come to an end; the internal and external liquidity of the European economies was much improved; interest rates were low and the labour supply in most countries ample. Whether budgetary policy ought now to aim deliberately, by increasing public investment or consumption, at stimulating effective demand or whether the authorities should rely on private business to initiate a new spurt in economic activity is a question to which no general answer can be given for all the European countries together. Just as in 1958 some countries pursued a much more active policy than others according to the special conditions in which they found themselves — compare the United Kingdom, on the one hand, with Germany, on the other — so in 1959 the particular circumstances in each country must form the basis for judging whether it can rely on the automatic forces of the market to speed up the tempo of economic activity or whether an easier credit policy must be supplemented by prudent fiscal measures.

In the eastern European countries the rate of economic expansion seems to have continued unabated in 1958. Industrial output in the Soviet Union is reported to have increased by 10 per cent. — the same as in 1957; the plan for 1959, however, envisages a slowing-down of the expansion to 8 per cent. In the smaller eastern countries the increase was approximately the same, except in the case of Albania and Bulgaria, for which much higher rates of expansion (20 and 16 per cent.) are reported. Figures for the gross national product comparable with those of the western countries are not available; but it must be assumed that the differences between the rates of expansion of the western and the eastern countries would be less marked when measured in terms of the gross national product, owing mainly to the fact that in the richer western countries the contribution made by the service industries to the growth in the national product tends to be greater than is the case in the eastern countries.

Nevertheless the percentage rate of expansion has undoubtedly been higher during the last few years in the East than in the West. The difference is mainly explained by a higher rate of growth of the labour force in most eastern countries and the fact that their production plans allot a larger share of their national resources to industrial investment, at the expense of the production of consumer goods and houses.

The trade of the U.S.S.R. — other than intra-eastern trade — declined between the first half of 1957 and the corresponding period of 1958 by some 10 per cent., the total turnover, which amounted to not much more than half that of Switzerland, being surprisingly small. Whether trade within the eastern group of countries expanded in 1958 cannot be ascertained.

Economic conditions in the rest of the world cannot here be analysed in any detail. The outstanding economic event for the underdeveloped countries was a further deterioration in their terms of trade — the counterpart of the improvement in those of the industrialised countries. In the case of

Latin America, for instance, they fell (on the basis 1953 = 100) from a peak of 110 in 1954 to 94 in 1957 and 90 in 1958; and for some Asiatic countries the extent of the deterioration was even greater. In almost all cases the change was partly due to the rise in import prices, but the principal cause was the decline in export prices. Such a worsening of the terms of trade of underdeveloped countries means, other things being equal, a fall in their real national income.

Besides this negative "income effect", the worsening of the terms of trade also has a balance-of-payments effect. The former effect will itself tend to cause a reduction in the imports of the countries concerned unless the inflow of capital is stepped up; but there is, of course, no guarantee that this will be sufficient to prevent a deficit in the balance of payments. If it does not, the choice is between losing reserves or artificially cutting down imports by means of the various devices at the disposal of the governments. Although conditions differed from one case to another, the underdeveloped countries as a group did not lose much of their foreign reserves in 1958; instead their imports fell in that year — owing partly to the decline in national incomes and partly to cuts imposed by the authorities — by roughly 7 per cent., which was more than the decline in their exports.

* * *

The effect of the unusually large accumulation of foreign assets by European countries on their internal economies has been analysed earlier in this chapter. It remains now to look more closely at the international aspects of these dramatic changes.

Changes in gold and short-term dollar holdings.

Countries	1957			1958		
	Gold	Dollars	Total	Gold	Dollars	Total
in millions of U.S. dollars						
United States	+ 799	- 219 ¹	+ 580	- 2,275	- 1,001 ¹	- 3,276
Europe ²	+ 405	+ 278	+ 683	+ 3,142	+ 562	+ 3,704
Rest of the world (including international institutions)	- 477	- 59	- 536	+ 23	+ 444	+ 467

¹ A minus sign means an increase in dollar liabilities. the United Kingdom.

² Including dependencies, except those of

Europe increased its gold and short-term dollar holdings in 1958 by \$3.7 milliard, i.e. by \$3 milliard more than in 1957. It must be added that in 1958 almost all western European countries participated in the accumulation of reserves (the exceptions being Spain, Turkey and Greece), whereas in 1957 only nine out of seventeen countries gained reserves, while the others lost. Moreover, the distribution of these gains was much more uneven in 1957 than in 1958, the lion's share having gone in the earlier year to three countries, Germany, Italy and Switzerland, whereas there was no such concentration on a few countries in 1958 (see Chapter VI).

As the counterpart to this gain in Europe, the United States lost \$2.3 milliard of gold in 1958 and its short-term foreign liabilities increased by another \$1 milliard, whereas in 1957 it had gained a substantial amount of gold — far more, in fact, than the increase in its dollar liabilities.

The addition to European gold and dollar reserves in 1958 was only partly the result of the United States' deficit in its balance of payments with Europe. Europe acquired only \$1.8 milliard through direct transactions with the United States, whereas its total acquisition of gold and dollars amounted to \$3.7 milliard. Of the difference of \$1.9 milliard, an estimated \$895 million was accounted for by newly-produced and Russian gold received by European countries as a result of direct transactions with the rest of the world. The amount still remaining — \$1 milliard — must have been acquired through the mechanism of triangular trade from the United States. The rest of the world, which earned \$1.6 milliard through direct transactions with the United States, must have turned \$1 milliard over to Europe to complete the settlement of its deficit.* Unfortunately it is not possible to ascertain the size of the deficit of the rest of the world with Europe directly from the balance-of-payments statistics. However, the trade statistics available give a sufficient indication of the flows through this triangular circuit.

Changes in the balance of trade between 1957 and 1958.

Items	Imports ¹	Exports	Balance
	round figures, in millions of U.S. dollars		
United States			
Trade with O.E.E.C. countries	- 240	- 1,170 ²	- 1,410
with the rest of the world	+ 430	- 1,760	- 1,330
O.E.E.C. countries			
Trade with the United States	+ 1,650 ²	+ 250	+ 1,900
with the rest of the world	+ 960	+ 140	+ 1,100

¹ Increase —, decrease +. ² The discrepancy between U.S. exports to the O.E.E.C. countries and the O.E.E.C. countries' imports from the United States is due to the fact that the O.E.E.C. imports are valued c.i.f. and the U.S. exports f.o.b. and that military shipments are included in the former but not in the latter.

The deterioration in the trade balance of the United States vis-à-vis Europe and the rest of the world in 1958 amounted to roughly \$1.4 milliard in each case, which accounts for by far the largest part of the gold and dollars gained by the two areas through direct transactions with the United States. At the same time the trade balance of the rest of the world with Europe worsened by over \$1 milliard. It is clear, therefore, that the rest of the world earned dollars from the United States through the improvement in its trade balance with that country and used them to cover its deficit with Europe.

The table also shows that the deterioration in the U.S. balance of trade with Europe and with the rest of the world was almost entirely due to the fall in U.S. exports. In view of the U.S. recession this deterioration

* This calculation leaves the rest of the world with a gain of gold and dollar reserves of some \$600 million, as against \$467 million in the table on the previous page; the difference is due to the fact that the definition of gold and dollar holdings in the U.S. balance-of-payments statistics is somewhat different from that used in the Federal Reserve Bulletin, on which the table is based.

runs counter to what one might have expected and to what actually occurred in the recession of 1953-54, when U.S. commercial exports increased and imports fell; and it is not surprising that the adverse change in the trade balance in 1958 has given rise to a discussion in the United States and elsewhere as to whether there has been a decrease in the competitive strength of the United States in the world markets.

In order to form a balanced judgement on this question it is first of all necessary to know that about two-thirds of the total decline in U.S. exports in 1958 was attributable to seven categories of commodities: petroleum and petroleum products, raw cotton, wheat, coal and related fuels, iron and steel-mill products, scrap, and non-ferrous metals and ferro-alloys.

In none of these cases, except that of steel, did the price factor play an important rôle. Exports of petroleum had risen to extraordinary heights in the first half of 1957 as a result of the Suez crisis and in 1958 they returned to a more normal level. Exports of cotton, too, had been exceptionally high in 1957, when foreign countries replenished their stocks following the revision of the U.S. export price; and wheat exports had been abnormally large that year mainly as a result of special deliveries to the Far East. Exports of the other items on the list fell owing to the slackening in European economic activity. Whenever capacity is strained in Europe, the U.S. producers of these commodities serve as marginal suppliers, and they are therefore immediately hit when a European boom recedes.

The remainder of the decline in exports was spread over a large variety of products. And here the widely-held view that the United States is beginning to "price itself out of the market" may have some foundation. In any case, without this assumption one would be at a loss to account for the fact that U.S. exports to the rest of the world declined by 11 per cent. in 1958, while European exports to this area increased by about 1 per cent. It is, however, difficult to verify this assumption by reference to price indexes. It is true that the price index for engineering products, for instance, has for a number of years been rising considerably faster in the United States than in the United Kingdom or Germany; but since this had not done any harm to U.S. exports of these products before 1958, one has to look for special reasons why it should have begun to have an effect in 1958. These can probably be found in the fact that up to 1957 the shorter delivery periods in the United States made up for higher prices, whereas in 1958, when, with the slackening of demand in Europe, delivery periods shortened there and competition increased all round, the higher prices in the United States were no longer thus offset. The much lower European tenders for supplying electrical equipment in certain individual cases which have received wide publicity also go to show that European producers have the advantage of lower costs than their U.S. competitors. The price factor also undoubtedly played a rôle in the decline in U.S. motor-car exports (and the increase in U.S. imports of European cars), although preferences as to style and size may have been more important. It is to the credit of the U.S. authorities

Part played by variations in price and volume in the changes in trade, 1957-58.

Countries	Imports		Exports	
	Price	Volume	Price	Volume
	in millions of U.S. dollars			
O.E.E.C. countries*	- 2,580	- 505	+ 240	- 495
United States.	- 660	+ 470	- 230	- 2,700

* Including intra-O.E.E.C. trade.

that, despite the unfavourable competitive situation and the huge loss of gold in 1958, they continued to provide foreign aid and did not have general recourse to measures designed to reduce imports.

On the import side, the United States, itself a great producer of important raw materials and foodstuffs, benefited much less from lower import prices than did Europe. The deterioration in the U.S. trade balance was predominantly caused by a decline in the volume of exports, and the improvement in the European trade balance by a decline in the prices of imports.

The exchange crisis of the summer of 1957 had once again focused attention on the problem of international liquidity, which had been discussed off and on throughout the post-war period. Of the many plans which had been put forward for relieving the shortage of international liquidity, the one that was put into practice was that of raising the national quotas in the International Monetary Fund — a measure which was decided upon at the annual meeting of the members of the I.M.F. in New Delhi in October 1958; and the redistribution of gold to the benefit of a number of European countries whose holdings had been inadequate up to 1957, together with a further accumulation of dollar reserves by these countries, greatly contributed to the solution of this problem, at least as far as Europe was concerned.

The introduction of convertibility for non-residents and the liquidation of the E.P.U., with its automatic credit facilities, were measures designed to promote genuine economic integration in two main ways: firstly, by forcing each country to keep its domestic monetary policy more closely in line with that of other countries, for no country can embark alone on an inflationary policy if it wishes to maintain convertibility; and, secondly, by removing any justification on balance-of-payments grounds for discriminatory treatment of imports from particular countries, such as the United States, since imports from any of the countries which have reintroduced convertibility now have to be paid for in convertible currency.

The process of freeing currency transactions is not yet completed; in particular, outward capital movements, especially in the form of capital exports by residents, are in most countries — the exceptions being Germany,

Switzerland and Belgium — still subject to varying degrees of restriction, productive foreign investment by residents being, as a rule, treated more liberally than portfolio investment. The freeing of capital transactions remains the last step still to be taken on the road to full convertibility.

Some of the main problems which have plagued the western world in recent years — in particular the shortage of external liquidity and currency restrictions — have now receded into the background, and the problem of economic growth has taken their place. The paramount task facing the western world at present is to find a way of achieving further expansion without reviving inflation and bringing back the old spectres which have for the time being been banished.

II. The National Product, Saving and Investment.

Factors of both a cyclical and a structural nature seem to have contributed to the slowing-down of the tempo of general economic growth during 1958.

The course of the trend line around which cyclical fluctuations take place is obviously determined by the availability and organisation of the factors of production and by technical progress. To gain a sense of perspective in any assessment of the current economic situation, it is important first to form some idea of the way in which these basic factors have contributed in recent years, and seem likely to contribute in the near future, towards setting the pace of economic advance. A report drawn up by the Organisation for European Economic Co-operation in the first half of 1957 contained the forecast that the increase (in real terms) in the national product in the countries of western Europe would slow down from an annual rate of 4.9 per cent. in 1950-55 to one of 3.2 per cent. in 1955-60.

The rate of growth achieved during the last ten years was by any standard very high, as may be seen by comparing it with the rates attained in 1938-48 or in earlier periods.

Gross national product: Annual rate of expansion
(in real terms).

Countries	1938-48	1948-58	1938-58	
			Total	Per capita
In percentages				
Austria ¹	- 1.1	7.9	3.1	2.9
Belgium ²	1.4	3.4	2.3	2.0
Denmark	1.7	2.9	2.3	1.4
France	- 0.2	5.8	2.8	2.3
Germany ³	- 2.0	8.4	2.6	1.2
Italy	- 0.3	5.5	2.6	1.9
Netherlands	1.3	4.6	2.9	1.5
Norway	2.4	3.0	2.7	1.8
Sweden	2.4	3.5	2.9	2.1
Switzerland	2.3	3.9	3.1	2.0
United Kingdom	0.9	2.4	1.7	1.2
Canada	5.9	4.2	5.0	3.0
United States	5.3	3.0	4.2	2.6

¹ 1937-48; 1937-58. ² 1948-57; 1938-57. ³ Territory of the Federal Republic; periods 1938-49 and 1949-58.

The average annual rate of growth in the individual countries during the whole period from 1938 to 1958 varied between a "high" of 5.0 per cent. in the case of Canada and a "low" of 1.7 per cent. in the case of the United Kingdom. Next to Canada, with high rates, came the United States and, at some distance, Switzerland and Austria, whereas Italy, Belgium and Denmark had lower rates of expansion.

The evolution in the last decade can be said to have been fairly homogeneous throughout the world, but in the previous decade exceptional events prevented any substantial degree of uniformity in the trend. Among the countries listed are some which were neutral in the last war and on which the impact of the war was relatively slight, some which participated in the war but did not suffer any direct damage and others in which both the level of production and that of existing real wealth was seriously affected. It is thus not surprising to find that the decade 1938-48 was characterised by widely divergent movements.

The fastest rates of growth during the period 1938-48 were registered in the United States and Canada, two countries whose participation in the war led to a marked rise in their national product — of which defence expenditure forms a part — while their productive system was not damaged. The national product also continued to expand, though at a reduced rate, in the neutral countries and in some countries which were less hard hit by the military operations or which staged an appreciable recovery in the early post-war years. Finally, in the countries which suffered most from the war not only was there no increase in the national product but it even showed a decline; this was the case in Germany, Austria, Italy and France.

The evolution in 1938-48 explains to a large extent that in 1948-58. The countries where the national product showed the most marked tendency to rise in the decade of recovery were those in which it had been particularly low during the war decade. In Germany the annual rate of growth leapt up from -2.0 per cent. to 8.4 per cent. and in Austria it jumped from -1.1 per cent. to 7.9 per cent., while in France and Italy negative rates of 0.2 and 0.3 per cent. respectively were followed by positive ones of 5.8 and 5.5 per cent. On the other hand, Canada and the United States, which had shown the best growth figures in the war decade, were the only countries among those here considered to record a decline in the average rate of growth of their national product in 1948-58.

In some countries economic progress owes much of its impetus to a parallel increase in population, and if the rates of growth are based on per capita data the figures may change appreciably. On this basis the rates attained in Canada, the Netherlands, the United States and Switzerland, for instance, are seen to be considerably slower, whereas those in Austria and France appear in a better light. For the whole period 1938-58 the United Kingdom and Germany show the lowest rate of expansion, in real terms and per capita, but the latter country is the only one in which the per capita increase is less than half of the overall rate. This is clearly due to the inflow of refugees, which has caused the population of the territory of the Federal Republic to increase by one-third. Furthermore, the relatively low rate in this country is also due to the high starting-point in 1938, when armament production was inflating the domestic product, though with little benefit to the German consumer.

By extending the comparison still further back into the past it could easily be shown that not only during the decade 1948-58 but also in the

whole period 1938-58 the rates of expansion compare favourably with former achievements. Among the factors responsible for the rapid pace of development in 1948-58, mention should be made of: (a) the contribution of foreign aid, which, through the mechanism of counterpart funds, was to a considerable extent channelled to the financing of investment in Europe; (b) the marked propensity to invest in the private sector, resulting from the high productivity of repair work and from investment in the "bottle-neck" sections of the economy; (c) the fast rate of the technological advance, due to the application of new techniques acquired in wartime to peacetime needs; (d) the existence, in certain countries, of margins of underemployed capacity, in terms both of resources and of manpower; and (e) the integration of the national economies through the progressive liberalisation of foreign trade and of capital movements. The action of several of these factors has now ceased or is less effective than it was in the past, and a slowing-down of the tempo of advance is accordingly bound to result.

The contribution to the gross domestic product made by the three main sectors, i.e. agriculture, industry and services, is shown in the following table.

Origin of domestic product, 1938 and 1958.

Countries	Sector of origin					
	1938			1958		
	Agriculture ¹	Industry	Services	Agriculture ¹	Industry	Services
	in percentages of domestic product, at current prices					
Austria . . . . .	.	.	.	11.9	54.8	33.3
Belgium . . . . .	.	.	.	7.3 ²	47.3 ²	45.4 ²
Denmark	18.4	32.0	49.6	17.7	37.6	44.7
France	21.8	35.5	42.7	16.2 ³	40.5 ³	43.3 ³
Germany ⁴	13.4 ⁵	49.5 ⁵	37.1 ⁵	7.2	52.2	40.6
Italy	32.5	35.4	32.1	22.6	43.5	33.9
Netherlands	10.0	31.0	59.0	12.0 ²	42.0 ²	46.0 ²
Norway	14.6	33.5	51.9	12.7	39.7	47.6
United Kingdom . . . . .	.	.	.	4.4	50.1	45.5
Canada	13.1	33.7	53.2	7.1	40.9	52.0
United States	8.8	30.0	61.2	5.3	37.6	57.1

¹ Includes forestry and fishing. ² 1957. ³ 1952. ⁴ Territory of the Federal Republic. ⁵ 1936.

The countries in the table may be classified in two groups. The first comprises — in addition to the United States and Canada — France, the Netherlands, Denmark and Norway, i.e. countries in which the sectors rank in the following order of importance: services, industry, agriculture. The second group is characterised by the predominance of industry over services, agriculture still coming last. This structure is found in Austria, Belgium, Germany, Italy and the United Kingdom. In fact, the distinctions should be more finely drawn. The structure of a country's economic output depends on a number of factors, including, in particular, the degree of its economic development, its natural wealth, its geographical position and the density and rate of growth of its

population — all of which, either directly or indirectly, condition the structure of production. Another factor which should not be neglected is the state of a country's external economic relations, the importance of which is often greater the smaller the country involved. If a substantial part of demand is satisfied on external markets, the structure of national production may differ considerably from the pattern which would normally correspond to the structure of national expenditure; this seems to be the case in countries such as the Netherlands, Norway, Denmark and Belgium, in which exports account for between one-third and one-half of the national product in 1958, and also in countries such as Germany and the United Kingdom, in which the level of 23–25 per cent. is still fairly high in view of the size of these economies.

The preceding considerations should be borne in mind, for instance, when attempting to assess the rôle of agriculture in the various economies. Agriculture ranks lowest in the United States and the United Kingdom, its share there being round about 5 per cent. In the case of the United States this is almost entirely due to the effect produced over a long period in a highly-developed economy by the low income elasticity of agricultural products, while in that of the United Kingdom the low figure reflects merely the country's reliance on imports to meet the demand for foodstuffs. This also partly explains the greater weight of industry in the United Kingdom's structure of production. The same reasoning as applies to the United Kingdom also holds good in respect of Belgium and Germany. Had it not been for foreign trade, the available agricultural and raw-material supplies would not have provided a sufficient basis for the high degree of economic development achieved by these countries; as it is, they are able to pay for their imports of food and raw materials by exporting manufactures. The fact that agricultural output represents a large proportion of the gross domestic product of a country does not, however, necessarily mean that the degree of development there is low. In Denmark, for instance, agriculture is carried on as an industry — it is in fact an export industry — and, although it accounts for a substantial percentage of the gross domestic product, a comparison of the figures for national product per head reveals that Denmark stands high in the list.

Whereas the figures showing the part played by agriculture in the formation of the national product range from 4.4 per cent. (in the United Kingdom) to 22.6 per cent. (in Italy), in the case of industry the differences are relatively much less marked, the figures varying between 54.8 per cent. (Austria) and 37.6 per cent. (Denmark and the United States). In two other countries besides Austria — namely, the United Kingdom and Germany — the share of industry was over 50 per cent., while in Belgium it was not much less. These countries all have considerable mineral resources and it is the inclusion of mining and quarrying in industrial production which explains the relatively high level of the total. If mining and quarrying output were added to agricultural production, so as to distinguish between the primary, secondary and tertiary sectors, the contribution of the latter, i.e. services, would become the greatest in Belgium and would be almost equal to that of the secondary

sector in the United Kingdom and Germany; in Austria, however, the rôle of the secondary sector would still be the predominant one. The United States, Denmark, Norway and France are among the countries in which the contribution of industry to the national product is relatively small.

The most puzzling figures are probably those relating to services. In this respect Norway is the European country which comes nearest to the American standard. This is largely due to the fact that Norway is far ahead of all the other countries in the field of transport, storage and communications. Some 17 per cent. of its domestic product is attributable to these items (Denmark ranks second with about 9 per cent.), but as such a high level of transport services is not needed by the Norwegian economy alone, a substantial proportion — comprising, for the most part, shipping services — is utilised by foreign countries. Austria is at the other extreme, both as regards services as a whole and — mainly on account of its geographical position — as regards transport, which accounts for a bare 5 per cent. of the national product.

In all the countries for which both 1938 and 1958 figures are given in the table, with the exception of the Netherlands, the share of agriculture has declined — sometimes considerably, as in Canada, Italy and Germany. In the Netherlands it increased from 10 to 12 per cent. between 1938 and 1957. This progress was the result of the considerable expansion of farm output mainly in response to external demand. In industry the trend, though less marked, has been upwards everywhere. The evolution of the services sector seems to differ more from one economy to another. In France, Germany and Italy a growth is observable, while in the other countries a decline has occurred. On the whole, the figures for 1958 show a narrower range of variation than those for 1938. Developments during the period have been too much affected by external events to allow any far-reaching conclusions to be drawn regarding the long-term trends. The changes observed do not, however, contradict the generally accepted ideas concerning variations in the structure of the national product over longer periods of time. That the share of agriculture is declining is borne out. As for industry, there still seems to be considerable vitality in this sector both in Europe and in the United States and Canada. The evolution in the services sector, on the other hand, is not sufficiently homogeneous to warrant any conclusion either supporting or opposing the generally held view as to the growing importance of the tertiary sector.

The structure of national expenditure is more sensitive to cyclical variations than that of production. Capital formation, in particular the building-up of stocks, responds very quickly to changes in the economic climate and its share in total expenditure may increase or decline noticeably from one period to another; as, however, opposite movements often to some extent compensate one another in annual data, the figures for 1958 may be considered (perhaps with certain reservations as regards the United States) to provide a relatively satisfactory basis for a comparison of expenditure structures before and after the war.

Private consumption in 1958 ranged between a "low" of 58 per cent. of the national product in Germany and a "high" of 70 per cent. in Belgium. The Netherlands, Austria, Sweden and Norway have a low rate of consumption, while Denmark, Italy, France and the United States come after Belgium at the other end of the scale.

The disparities in public consumption are greater than those in private consumption. In 1958 the highest level of public consumption

Structure of national expenditure.

Countries	Years	Private consumption	Public consumption	Gross domestic fixed-capital formation	Changes in stocks	Exports of goods and services	Imports of goods and services
Austria	1937	77	16		7	18	18
	1948	77	12	15	4	8	16
	1958	62	14	22	1	25	24
Belgium	1938	66	15		17	23	21
	1948	76	9	14	3	25	27
	1957	70	11	16	1	37	35
Denmark	1938	77	9	12	0	27	25
	1948	72	11	15	4	20	22
	1958	68	13	17	- 1	36	33
France	1938	76	12	13	-	11	12
	1948	71	14	18	2	9	14
	1958	67	14	19	1	15	16
Germany	1936	60	21	14	4	8	7
	1949	65	18	19	1	8	11
	1958	58	14	22	2	25	21
Italy	1938	67	16	16	2	7	8
	1948	72	12	19	- 0	10	13
	1958	66	10	22	1	16	15
Netherlands	1938	74	12	10	1	34	31
	1948	70	14	20	4	31	39
	1958	59	14	22	0	49	44
Norway	1938	70	10	18	1	31	30
	1948	64	12	27	4	35	42
	1958	63	13	30	- 1	45	50
Sweden	1938 ¹	70	11	17	2	20	20
	1948	69	14	18	1	21	23
	1958	62	17	21	- 0	22	22
United Kingdom	1938	76	14	11	-	17	18
	1948	72	15	12	1	20	20
	1958	65	16	16	0	23	20
Canada	1938	73	10	14	1	25	23
	1948	67	9	20	1	27	24
	1958	64	14	26	- 1	20	23
United States ²	1938	75	12	13	- 1	5	4
	1948	68	11	16	2	7	4
	1958	66	17	18	- 1	5	5
O.E.E.C ³	1938	71	14	15	2	19	21
	1948	71	15	16	1	15	18
	1958	66	14	19	1	23	23

¹ Financial year 1938-39. ² An amount equal to public expenditure on new civil construction and estimated depreciation on government buildings has been deducted, in this case, from the item "Public consumption" and added to gross fixed investment. ³ At constant prices.

expenditure in relation to total expenditure was that recorded by Sweden and the United States (17 per cent.). Next came the United Kingdom and Austria. The lowest percentage was that registered in Italy (10 per cent.). It appears that within total consumption there is an inverse correlation between public and private consumption, in that countries with very high rates of private consumption are often those in which relatively lower rates of public consumption are found. A similar inverse correlation exists, by definition, between total consumption and total investment expenditure.

Total investment expenditure, i.e. the sum of domestic investment (fixed investment and additions to stocks) and external investment (net increase in foreign assets), is equal to total savings. In 1958 the highest figures for total savings, expressed as a percentage of the national product, were reached in Germany and the Netherlands (with 28 and 27 per cent. respectively) and the lowest for any European country in the United Kingdom and Belgium. In the United States the figure was lower still (partly because of the recession). Inter-country comparisons of national income data may sometimes be rather misleading, but the differences in this particular case are so marked that they may be regarded as giving a sufficiently clear indication of the relative orders of magnitude.

Four of the countries in the table, namely France, Norway, Sweden and Canada, had a deficit in their balance of payments on current account in 1958 and thus invested at home more than the amount of their domestic savings. In the case of Norway, mainly because of imports of ships on a long-term credit basis, domestic investment in 1958 represented as much as 29 per cent. of the national product, and, as there was an unloading of stocks, fixed investment was higher still, amounting to 30 per cent. — by far the highest rate of any of the countries listed in the table. On the other hand, Germany and the Netherlands, while belonging to the group of countries with very high rates of domestic investment, placed a large portion of their total savings abroad.

Whereas external investment or disinvestment and the domestic accumulation or unloading of stocks are very responsive to cyclical movements, gross investment in fixed assets is of a less volatile nature and thus offers a better basis of comparison. Though it is not possible to draw a clear-cut distinction between a high investment group and a low investment group, some countries seem to fall fairly obviously into the one or the other category. Judging from the figures for 1958 and the previous years, Germany, the Netherlands and Norway come into the former group and the United States, the United Kingdom and Belgium into the latter, whereas the other countries occupy intermediate positions.

Despite some cyclical variations in the rates of growth, the period 1948–58 was characterised by continued expansion, and the individual components of national expenditure show clear-cut trends. In all the countries under review the share of private consumption in the national product declined — in some cases appreciably (e.g. Austria and the Netherlands) and in others

slightly (e.g. the United States and Canada). In the O.E.E.C. group of countries, viewed as a whole, it fell from 71 to 66 per cent. Variations in government consumption as a proportion of the national product in the individual countries were not so homogeneous. On the whole there were more increases in this item than decreases. The growth in public consumption was particularly marked in the United States and Canada. Among the European countries, Sweden was the only one to record a notable increase, whereas in Germany there was a sharp fall and in Italy a pronounced decline. Capital formation, especially gross domestic capital formation, displayed a marked expansionary tendency in Europe and in Canada. Divergent trends in the prices of consumer goods and investment goods — with the latter rising more than the former — cause the shift from consumption to investment to appear greater than it in fact was, but — at least in Europe — the shift was so marked, even in terms of constant prices, that the conclusions to be drawn remain the same. Thus, from 1948 to 1958, according to the O.E.E.C.'s figures for the whole group of its member countries, the share of gross domestic capital formation in the national product increased, in terms of constant prices, from 17 to 20 per cent.

Between 1938 and 1948 the decline in the share of private consumption was not as widespread as it was in the period from 1948 to 1958. In Austria the relative level of private consumption remained stable; in Belgium, Germany and Italy it rose substantially. Considerable declines took place in Canada and the United States and also in Norway, France, the Netherlands and the United Kingdom. During this period the share of public consumption in the national product showed no clear tendency, while that of capital formation had already begun to expand in America and in Europe.

As far as the changes over the whole period from 1938 to 1958 are concerned, these are best illustrated by the figures for the group of O.E.E.C. countries, which clearly reveal the decline in private consumption, the corresponding increase in capital formation and the relative stability of public consumption. The combined gross national product of these countries increased by 62 per cent. in real terms between 1938 and 1958, but the whole of this increase occurred in the decade from 1948 to 1958, as did the greater part of the real changes which distinguish the structure in 1958 from that in 1938. Gross domestic capital formation nearly doubled in the ten years from 1948 to 1958 and its share in the national product rose from 17 to 20 per cent.; private consumption and public consumption expanded less than the national product, their respective shares falling from 71 to 66 per cent. and from 15 to 14 per cent.

The evolution of expenditure in Europe in the last decade was largely determined by the war. If the comparison were extended further back into the past, so as to include more diverse economic developments, or if more typical years were selected, it would become evident that the structure of expenditure can change considerably. For example, in the United States the share of private consumption rose as high as 84 per cent. in 1932, when the lowest point of the

depression was reached, while that of gross private investment fell to under 2 per cent. In 1944, at the height of the artificial expansion due to the war, private consumption reached a low point of about 52 per cent. and private investment was also very small, at around 3 per cent., while government expenditure, as was to be expected, attained a peak (46 per cent.). An examination of the long-term trend in the United States shows that the movements of both consumption and investment follow closely those of the national product, but that in the former case they are less sharp and in the latter more so. In periods of rapid expansion investment increases at more than the average rate, while in periods of recession it contracts more than the other elements of national expenditure.

The figures for total exports and total imports enable interesting conclusions to be drawn with regard to the rôle of foreign trade in the economic evolution of the last two decades. The table on page 34 reveals in the first place the importance of external transactions for most European countries, as shown by the high proportion of the gross national product which these represent, even in countries which are less dependent on imports. At a time when Germany and Italy were pursuing autarkic policies, the share of external transactions in the gross national product was still higher there than it has been at any time in the United States. In Germany the share of exports in the national product has increased threefold since 1936. But over the whole period foreign trade has expanded, though less spectacularly, in almost all the countries under review.

The figures for the O.E.E.C. group of countries show that the slight deficit which had existed in 1938, when exports represented 19 per cent. and imports 21 per cent. of the national product, had grown larger by 1948, when the share of imports had declined to 18 per cent. and that of exports to 15 per cent. By 1958 both imports and exports had expanded in such a way that exports, at 23.4 per cent. of the national product, were slightly in excess of imports.

The distribution of fixed investment among the various economic sectors is influenced in many ways by structural factors (availability of natural resources, long-established industry, geographical situation, etc.), by long-term trends in domestic or foreign demand and by national policies designed to modify the pattern of production. In the table on the following page the effects of policy are visible, for instance, in the large proportion of investment in dwellings, which often accounts for more than a quarter of gross fixed investment (and more than half of net investment). By and large, a high rate of investment in dwellings is found in countries with high overall investment percentages.

The distribution of gross productive capital formation among the three main sectors, i.e. agriculture, industry and services, follows very closely the structure of output as shown in the table on page 31. Another point of interest is that the share of gross investment in industry is usually larger in the countries with lower overall investment rates, e.g. the United Kingdom.

Structure of gross productive capital formation.
Average 1953-57.

Countries	Gross fixed domestic investment	Less: investment in dwellings	Equals: gross productive investment	Gross productive investment in		
	as percentages of gross national product			agriculture	Industry	services
Norway . . .	28.5	5.0	23.5	13	29	58
Netherlands .	23.0	4.5	18.5	8	39	53
Germany . . .	22.0	5.0	17.0	11	51	38
Italy	20.5	5.0	15.5	17	42	41
Sweden	20.0	5.0	15.0	7	40	53
France*	18.5	4.0	12.5	12	46	42
Belgium* . . .	15.5	4.0	11.5	5	47	48
United Kingdom .	14.5	3.5	11.0	5	54	41

* Average 1953-56. Source: E.C.E., Economic Survey of Europe in 1958.

No comparable data are available for net investment by sectors. It seems likely, however, that net investment in industry would not show differences of the same magnitude, because in the old industrial countries such as the United Kingdom, France and Belgium a large proportion of gross investment consists of replacements. In the case of Germany the large share of industrial investment in gross productive capital formation and the high overall rate of investment are partly attributable to the consequences of the war (destruction, partition, refugees, etc.).

Not only does the availability of natural resources, manpower and instrumental capital goods strongly influence the structure of output in the present, but at the same time the existing interrelationship of these factors of production indicates possible future trends. This is particularly true with regard to manpower: the natural rate of increase of the labour force, the current level of employment, the distribution of workers among the various activities and the degree of productivity achieved in each are all of great significance.

Ratio of output to labour force, by sectors.*

Countries	Agriculture			Industry			Services		
	Share in		Output Labour	Share in		Output Labour	Share in		Output Labour
	output	labour force		output	labour force		output	labour force	
round figures, in percentages									
Belgium.	8	10	75	47	49	97	45	41	110
France	16	26	61	41	38	107	43	36	122
Germany	9	18	49	51	48	107	40	34	117
Italy	23	40	58	41	29	142	36	31	115
Netherlands. . .	11	12	92	43	43	101	45	45	101

* Based on labour-force data for 1956 taken from the "Exposé sur la situation sociale dans la Communauté", E.E.C., September 1958. The output figures are based on the annual averages for the period 1953-57.

The figures for the few countries for which it has been possible to prepare more or less comparable data show that the labour force distributes itself roughly according to the pattern of production and that — except in Germany, where the effect of the flow of refugees is still making itself felt — the output/labour ratio in agriculture is lowest in countries (such as Italy and France) where the share of this sector in total output is particularly large. This points, especially in the case of Italy, to a certain amount of under-employment, which can be corrected only by movements of labour from agriculture to other sectors. Even, however, in countries where this shift has already taken place (e.g. the Netherlands) productivity per worker in agriculture falls short of the level attained in industry and in services.

The volume of the capital stock of the various economies influences their behaviour for more than one reason. Firstly, it largely determines the level of labour productivity. Secondly, in the old industrialised countries replacement expenditure often considerably exceeds the amount of new investment needed to provide jobs for the additions to the labour force and enable real remuneration to be increased. Thirdly, in countries whose industrialisation is just beginning or is being accelerated new investment is predominant, so that, in order to achieve a reasonable rate of growth, a relatively larger flow of fresh savings, free or forced, is required there than in the former countries, where replacement often brings with it higher productivity. And perhaps from this the very tentative conclusion may be drawn that while in the highly-developed countries replacement is itself a stabilising element, so that during cyclical downturns it is consumption that needs to be kept up in order to help to revive activity (the danger of thereby creating inflation being lessened by the existence of unused productive capacity), in the less-developed countries it is primarily new investment that has to act as the sustaining factor by providing the increased flow of commodities required to bring about a real rise in living standards.

* * *

The existing structure of domestic production and expenditure, as well as the degree of integration of the economy of a country with the outside world, are bound to play a part in determining the type of measures which the authorities take in periods of excessive boom or in phases of stagnation or recession. The effect of these measures can be ascertained either from a monetary point of view, by analysing the changes which have taken place in the structure of financial claims and liabilities and their distribution among the various economic sectors (as is done in Chapter III), or from the point of view of national accounting, by assessing the extent to which factors of expansion and contraction (i.e. variations in domestic and foreign demand) have been at work during a given year. The rest of this chapter is devoted to such an assessment.

* * *

In 1958, for the first time since the end of the war, there was a slight decline in the real gross domestic product (at factor cost) of the United Kingdom.

Private consumption continued to expand in 1958. The largest increases in spending — those in purchases of motor-cars and other durable goods — took place in the last quarter of the year, mainly as a result of the removal of hire-purchase restrictions and the easing of the conditions governing bank lending. The overall increase in consumer spending was made possible by a rise in disposable personal income of 4.5 per cent., which exceeded the rise in consumer prices, and by a slight decline in the proportion of income saved.

United Kingdom: Factors of expansion and contraction
(in real terms).

Items	Change between			Amount in 1958
	1955 and 1958	1956 and 1957	1957 and 1958	
in millions of £ sterling, at 1958 factor cost				
Sources of demand				
Private consumption	+ 120	+ 230	+ 290	12,600
Government consumption	- 25	- 155	- 45	3,600
Total consumption	+ 95	+ 75	+ 245	16,200
Gross fixed investment	+ 145	+ 145	—	3,295
Investment in stocks	- 75	+ 60	- 280	60
Total domestic investment	+ 70	+ 205	- 280	3,375
Total domestic demand	+ 165	+ 280	- 35	19,575
Exports of goods and services	+ 275	+ 55	- 100	4,380
Total demand	+ 440	+ 335	- 135	23,955
Available supplies				
Gross domestic product	+ 330	+ 220	- 125	19,850
Imports of goods and services	+ 110	+ 115	- 10	4,105
Total supplies	+ 440	+ 335	- 135	23,955

Government consumption continued to diminish. In real terms this decline started in 1954 after the peak of the rearmament effort following the Korea crisis had been passed. Within total government consumption, however, the share of the local authorities has been steadily increasing in recent years, chiefly owing to expenditure on education.

In national accounting the consumption of the central government represents only a part of its outlay, and it is therefore also interesting, because of their policy implications, to see what changes there have been in actual budget figures. The main items of the central-government budget are shown, in current values and by financial years, in the table opposite.

For the financial year 1958-59 the overall budget deficit was £182 million, this being the net result of a surplus "above the line" of £377 million

and a deficit "below the line" of £559 million. Compared with the original estimates, this was an improvement of £54 million, due chiefly to the fact that outlays "below the line" were lower than had been estimated. In comparison with the results for 1957-58, those for the financial year 1958-59 showed a smaller "above-the-line" surplus and a smaller "below-the-line" deficit; the overall deficit was cut by £30 million, from £212 to 182 million.

The budget for 1958-59 provided neither for any major tax reduction nor for any general economic relaxation, but only for a number of small concessions, expected to cost the Exchequer £50 million in 1958-59, while, by keeping estimated net "below-the-line" outlays down to £600 million (i.e. £35 million less than was spent in the previous year), the government showed that it intended to continue to pursue a policy of relative restraint. The budget for 1959-60, however, makes use of the instruments of fiscal policy to stimulate a balanced revival of economic activity. As the Chancellor of the Exchequer put it in his budget speech on 7th April 1959, "... the aim of this budget is to help in keeping the cost of living steady and in lowering unit costs of production by encouraging a steady but not excessive expansion in production and a continuing high rate of industrial investment". Tax reductions have been introduced which, for the current fiscal year, will

United Kingdom: The budget.

Items	Financial year			
	1957-58	1958-59		1959-60
		Actual	Original estimates	
	in millions of £ sterling			
"Above the line"				
Revenue				
Inland revenue	2,855	3,016	2,970	2,856
Customs and excise	2,150	2,191	2,189	2,150
Other revenue	338	273	280	319
Total	5,343	5,480	5,439	5,325
Expenditure				
Civil	2,708	2,849	2,841	2,993
Defence	1,430	1,466	1,418	1,502
Consolidated fund ¹	762	766	616	728
Total	4,920	5,103	5,075	5,223
"Above-the-line" surplus	+ 423	+ 377	+ 364	+ 102
"Below the line"				
Net payments				
Loans to local authorities ²	45	- 52	13	- 55
Loans to the Coal Board and other nationalised industries	363	411	417	533
Other payments	227	200	170	345
Total net "below-the-line" payments	635	559	600	823
Overall deficit	- 212	- 182	- 236	- 721

¹ Including sinking-fund payments: £37 million in 1957-58, £38 million in 1958-59 and £39 million in the estimates for 1959-60. ² A minus sign = repayment.

represent an alleviation of £295 million (£360 million in a full year), the main relief being that in income tax (9d. off the standard rate), while appreciable cuts have also been made in purchase-tax rates (each of the various tariffs having been lowered by one-sixth) and in the tax on beer. Furthermore, it has been decided to reintroduce an investment allowance for new plant and machinery.

In addition to the tax cuts, which are expected to reduce the "above-the-line" surplus from £377 to 102 million, the new budget also provides for an increase of £264 million in net outlays "below the line", bringing them up to £823 million. The increase in this part of the budget relates, in particular, to loans to the nationalised industries, credits under the Export Guarantee Acts, loans to building societies to be granted under new legislation passed during the 1958-59 financial year, and the accelerated repayment of "post-war credits" (sums credited by the government to individuals in respect of extra income tax paid by them during the war).

As a result of all these measures the overall budget deficit for the financial year 1959-60 has been estimated at £721 million, i.e. at £539 million more than it actually came to in 1958-59.

Returning to national income data, the item gross fixed investment (see the table on page 40) includes both private and public investment. There was no overall change in this item in 1958 compared with 1957. But public fixed investment declined somewhat and private fixed investment increased slightly, the shift between the two sectors having occurred mainly in housing. Within the private sector there was also a certain shift between the investments of "manufacturing industry" (which declined) and those of "distribution and other services" (which increased). A substantial decline took place in 1958 in investment in stocks (at constant prices), which amounted to £280 million less than in 1957.

Exports of goods and services, i.e. the external element in total demand, after four years of expansion, fell in 1958 by £100 million, or about 2 per cent., and total demand by £135 million.

Total industrial production in 1958 was on an average 1 per cent. below the level of 1957, the lowest point having been reached in the third quarter of the year, when the figure was 3 per cent. below the level reached twelve months earlier. In the fourth quarter there was a recovery, and the higher level of activity was sustained during the first quarter of 1959.

The various branches of industry reacted differently in the face of the changing pattern of demand, both internal and external. Except in the textile sector, production expanded in the consumer-goods industries and contracted in the capital-goods industries. Metal-manufacturing, mining, the brick and cement industries, etc., were depressed by the slower accumulation — or even (in the case of steel) the running-down — of stocks, by the shift in defence expenditure away from traditional weapons and, later in the year, by the

decline in exports and the fall in investment in plant and equipment by manufacturing industry. The latter, while carrying on with programmes already in the course of execution, refrained from embarking on new ones, partly in order to digest the productive capacity created during the investment boom of the preceding years. Civil employment in Great Britain, which had reached its highest level in the third quarter of 1957 (with a peak of over 23.2 million units in June), declined in 1958 by 250,000 units, the decline having taken place mainly in the iron and steel, textile and engineering industries. At the end of December the number of unemployed was 530,000, nearly 200,000 more than a year before, while the number of unfilled vacancies, at 160,000, was 70,000 less.

In 1958 total gross savings, in current values and taking account of such items as capital transfers from abroad and changes in tax and dividend reserves, amounted to £4,055 million, which is only £13 million above the figure for 1957. As depreciation is estimated to have been £106 million more

**United Kingdom: Saving, investment and financial surplus or deficit,
by sectors.**

Items	Years	Sectors					Total ¹
		Persons	Companies	Public corporations	Central government	Local authorities	
		in millions of £ sterling					
Investible funds							
Gross saving, before adjustments	1956	1,296	1,619	197	356	131	3,495
	1957	1,485	1,703	173	526	162	3,966
	1958	1,443	1,779	149	561	155	4,034
Adjustments for stock appreciation, capital transfers and taxes on capital	1956	- 141	- 92	7	71	19	- 136
	1957	- 156	- 55	- 6	99	22	- 96
	1958	- 153	51	17	96	20	31
Funds from reserves ²	1956	25	260	8	-	-	293
	1957	- 1	174	- 1	-	-	172
	1958	28	- 35	- 3	-	-	- 10
Gross saving, adjusted	1956	1,180	1,787	212	427	150	3,652
	1957	1,328	1,822	166	625	184	4,042
	1958	1,318	1,795	163	657	175	4,055
Depreciation (-)	1956	- 374	- 631	- 336	- 146	- 177	-1,664
	1957	- 389	- 679	- 360	- 148	- 198	-1,774
	1958	- 400	- 740	- 390	- 150	- 200	-1,980
Net funds available (net saving)	1956	806	1,156	- 124	281	- 27	1,998
	1957	939	1,143	- 194	477	- 14	2,268
	1958	918	1,055	- 227	507	- 25	2,175
Uses of investible funds							
Net domestic capital formation	1956	245	788	267	54	397	1,751
	1957	285	914	355	68	383	2,005
	1958	295	651	343	88	343	1,720
Financial surplus or deficit (-) ³	1956	561	368	- 391	227	- 424	237 ⁴
	1957	654	229	- 549	409	- 397	263 ⁴
	1958	623	404	- 570	419	- 368	455 ⁴

¹ Including residual error. ² Temporary use of tax, dividend and interest reserves. ³ Net acquisition of financial assets plus net foreign investment. ⁴ Net foreign investment (i.e. balance of payments on current account).

than in 1957, net saving in 1958, at £2,175 million, was £93 million lower than in the previous year. Net domestic capital formation, however, declined even more (by £285 million), and the amount invested abroad at short and long term (i.e. the current balance on goods and services account) increased from £263 million in 1957 to £455 million in 1958.

In the above table all the sectors of the economy — with the exception of the central government — show a reduction in net saving or an increase in net dissaving. In fact, while the net saving of persons and companies declined, the net dissaving of public corporations and of the local authorities rose. The net dissaving of public corporations has been steadily increasing; in 1958 their gross saving covered hardly two-fifths of the amount of depreciation, and this, together with their net domestic capital formation, which was, however, somewhat less than in 1957, led to a financial deficit of £570 million. The local authorities also invested less in 1958 than in 1957 — owing mainly to the decline in public-sector house-building. Their net dissaving (namely the excess of their financial deficit — £368 million — over their investments), at £25 million, was of the same order of magnitude as in the two previous years.

It is part of the usual pattern of saving and investment activities that the personal sector invests much less than its net savings and thus achieves a financial surplus that becomes available to the other sectors (including, directly or indirectly, the rest of the world). In 1958 this financial surplus was £623 million.

In the case of companies, net saving has since the end of the war regularly exceeded net domestic investment, the excess being used to make investments abroad and to acquire financial assets. Net saving in 1958, at £1,055 million, was £88 million below the 1957 figure. As net domestic investment by companies declined by more than £260 million (owing entirely to the fall in the accumulation of stocks from £290 million in 1957 to £24 million in 1958), their financial surplus rose to £404 million — a level exceeded only in the years 1953 and 1954.

Direct net domestic investment by the central government is relatively small in the United Kingdom, and the government's net saving, which in 1958, at £507 million, reached its highest level for the last seven years, has been available for the financing of other sectors (notably the public corporations).

To sum up, it seems that between 1956 and 1957 the large increase in the net domestic investment of companies and public corporations almost entirely offset the growth in personal and governmental saving, the surplus on the current account of the balance of payments having risen by only £26 million. In 1958, as a result of a single major change not counter-balanced by any other of comparable magnitude, namely the fact that net domestic investment by companies declined much more than their net saving, there was an increase in the financial surplus of companies over the preceding year which was equivalent to nine-tenths of the £192 million improvement

in the current balance of payments. This development was connected with the much smaller addition to stocks and also with the lower cost of imported materials.

The gross national product of France amounted in 1958 to Fr.fcs. 23,570 milliard, the increase in that year, in real terms, having been equal to Fr.fcs. 490 milliard, i.e. more than one-third of the rise in 1957.

Industrial production went on increasing until the spring of 1958, when a slight downward trend set in. Comparing one year with the other, however, industrial output was some 6 per cent. higher in 1958 than in 1957. There was no substantial increase in unemployment, but the average number of hours worked declined somewhat and much of the increase in the earnings of households resulting from higher wage rates was nullified by the rise in consumer prices, which was greater than that in other types of prices.

In real terms, both consumer expenditure and government consumption declined in 1958 by Fr.fcs. 20 milliard.

Total investment (gross) continued to expand in 1958; but whereas in 1957 the increase was almost wholly accounted for by fixed investment, in 1958 additions to stocks represented nearly two-thirds of the total. It seems that the stocks in question consisted not of imported raw materials but of finished goods held by producers, who did not cut down their output even when demand was clearly falling.

Exports of goods and services rose more in 1958 than in the previous year, while imports declined, with the result that there was an improvement in the current account of the balance of payments.

France: Factors of expansion and contraction
(in real terms).

Items	Change between		Amount in 1958
	1956 and 1957	1957 and 1958	
in milliards of French francs, at 1958 prices			
Sources of demand			
Consumer expenditure	+ 780	— 20	15,730
Government expenditure	+ 180	— 20	3,280
Total consumption.	+ 960	— 40	19,010
Gross fixed investment	+ 390	+ 100	4,410
Investment in stocks	— 10	+ 170	360
Total investment.	+ 380	+ 270	4,770
Exports of goods and services	+ 160	+ 210	3,470
Total demand	+ 1,500	+ 440	27,250
Available supplies			
Gross national product	+ 1,330	+ 490	23,570
Imports of goods and services	+ 170	— 50	3,680
Total supplies	+ 1,500	+ 440	27,250

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

Items	Years	House-	Enter-	Public	Financial	Rest of the world
		holds	prises	authorities	insti- tutions ¹	
in milliards of current French francs						
Net saving	1956	715	380	80	210	.
	1957	805	565	165	245	.
	1958	845	545	710	270	.
Net capital transfers . . .	1956	155	245	— 270	—	130
	1957	150	215	— 345	—	20
	1958	120	225	— 350	—	5
Total investible funds	1956	870	625	— 190	210	.
	1957	955	780	— 180	245	.
	1958	965	770	360	270	.
Net investment (—) . . .	1956	— 395	— 1,170	— 360	.	.
	1957	— 465	— 1,440	— 420	.	.
	1958	— 500	— 1,865	— 395	.	.
Financial surplus or deficit (—) . . .	1956	475	— 545	— 550	210	— 405 ²
	1957	490	— 660	— 600	245	— 525 ²
	1958	465	— 1,095	— 35	270	— 390 ²

¹ Bank of France, banks, public credit institutions and insurance companies. ² Increase in liabilities or decrease in claims vis-à-vis foreign countries and the rest of the French franc area.

The break-down by sectors of saving and investment in France shows that in the household sector there was very little change in either item, in terms of current monetary values, from 1957 to 1958, the slight decline in the financial surplus of households having been attributable mainly to the decrease in capital transfer receipts, due in turn to a falling-off in receipts in respect of war damage.

The net saving of enterprises did not change much either, but the sector's net investment rose by nearly 30 per cent. — a very high percentage in view of the fact that the average price increase for this expenditure stream was only 8 per cent., compared with 14 per cent. in the case of consumer expenditure. As already mentioned, however, investment includes a large proportion of involuntary addition to stocks. The result of this development was a record financial deficit of Fr.fcs. 1,095 milliard.

In 1956 and 1957 the financial deficit of the business sector had been offset by the surplus of households plus that part of the surplus of the financial institutions (in particular the insurance companies) which can be likened to personal saving. It could thus be inferred that the large deficit of the public authorities was more or less directly responsible for that of the whole economy in relation to the rest of the world.

In 1958 the picture was totally changed. In that year the public authorities, even after deduction of capital transfer payments to other sectors from their net saving, still had at their disposal a positive amount of investible funds of Fr.fcs. 360 milliard, compared with a deficiency of nearly Fr.fcs. 200 milliard in the years 1956-57. As, furthermore, government net investment declined slightly, the sector's financial deficit was reduced from Fr.fcs. 600 milliard in 1957 to only Fr.fcs. 35 milliard in 1958.

France: Government finances.

Items	1956	1957	1958 preliminary	1959 estimates
	round figures, in milliards of French francs			
I. Revenue				
Ordinary revenue	3,585	4,205	5,040	5,600
Extra-budgetary revenue ¹	130	130	165	—
U.S. aid	50	5	—	—
Total	3,765	4,340	5,205	5,600
II. Expenditure				
Civil expenditure	2,595	2,955	3,480	3,690
Military expenditure	1,405	1,470	1,510	1,575
War-damage reconstruction	315	250	180	175
Investments	390	450	465	550
Special Treasury accounts and other items	— 15	195	120	200
Total	4,690	5,320	5,755	6,190
III. Overall deficit (—)	— 925	— 980	— 550	— 590
Covered by increase (+) in				
Public debt ²	610	670	555	
Correspondents' deposits	310	345	— 25	
Cash and miscellaneous	5	— 35	20	

¹ Tax receipts of the Caisse Autonome d'Amortissement used for debt redemption (included, in the 1959 estimates, in ordinary revenue). ² Including advances from the Bank of France, which amounted to Fr.fcs. 452 milliard in 1957 and to Fr.fcs. 4 milliard in 1958.

The improvement in the savings and financial position of the public authorities in 1958 was the result of various fiscal measures taken in 1956 and 1957 by the central government, which resulted in an increase in tax revenue much larger than that in expenditure. Because of price rises it proved impossible to limit total expenditure to Fr.fcs. 5,300 milliard, as was intended at the time of the presentation of the budget estimates for 1958. The other, more important, intention — substantially to reduce the overall deficit — was, however, successfully carried out.

Within the framework of a comprehensive programme of monetary rehabilitation introduced at the end of 1958, various fiscal and budgetary measures were adopted which, on the one hand, provided for higher taxation and, on the other, cut deeply into many types of economic and social subsidies. It was thus possible to budget in the 1959 estimates for an overall deficit not much greater than that incurred in 1958, without reducing — indeed, while considerably increasing — the part of expenditure reserved for investment, so that perhaps as much as one-half of the country's public investment will this year be financed out of the surplus of current receipts over current expenditure.

In terms of current values the gross national product of the Federal Republic of Germany amounted in 1958 to DM 222 milliard — an increase of 6.1 per cent. over 1957. In real terms the increase was only 2.8 per cent., compared with 5 per cent. the year before and an annual average of nearly 9 per cent. for the seven-year period 1950-56. It was in fact the smallest in any year since the monetary reform of 1948.

The average level of industrial production rose in 1958 by a little more than 3 per cent. The sectors in which the increase clearly exceeded the average were the capital-goods and chemical industries, in both of which production went up by over 7 per cent.; at the other end of the scale the consumer-goods industries, and especially the textile industry, suffered a decline in output. House-building, though remaining at a very high level, fell off for the second year in succession. In 1958 the number of new dwellings completed in the territory of the Federal Republic (excluding Berlin) was 487,000, which is 41,000 less than in 1957 and 71,000 less than in 1956. This fall was, however, partly compensated by the rise in the average number of rooms per dwelling.

The average industrial working force increased in 1958 by only about 50,000 units, i.e. approximately $\frac{3}{4}$ per cent. In 1957 the growth had been almost five times as great. Average working hours in industry declined in 1958 by 2 per cent. — less than in the preceding year but more than enough to offset the increase in the number of workers and cause a net decrease in the total of hours worked.

Nominal wages having gone up more than the cost of living, there was a rise in real wages. Furthermore, old-age pensions and other forms of social allowances increased even more than wages, so that the net income of households expanded appreciably faster than total national income, thus absorbing a larger share of the national income than in former years.

The changes which took place between 1956 and 1957 and between 1957 and 1958 in the various items of national expenditure resulting from domestic and external demand are set out, in real terms, in the table on the next page.

Between 1957 and 1958 both private and public consumption expanded less than in the previous year. Of the two, however, public consumption showed the greater relative expansion, owing mainly to the increase in the wages and salaries of civil servants. Total consumption rose in 1958 by DM 5.4 milliard, a rise which, though DM 1.8 milliard less than that in 1957, accounted for nearly 90 per cent. of the increase in the gross national product.

At DM 53.4 milliard, total gross investment in 1958 was DM 2 milliard higher than in 1957. Stock accumulation, in real terms, was the same in both years, so that the whole increase in gross investment in 1958 was attributable to fixed investment — in fact, as expenditure on housing declined, to investment in the public sector and to business investment. Both gross and net investment in industry expanded substantially. Among the factors making for a high overall level of investment activity at a time of slower growth in consumer demand and declining profit margins, mention should perhaps be made of the fall in the long-term interest rate and the increasing volume of replacement investment in industry. In addition to its stabilising rôle, the latter may be found, when demand becomes more active than it was in 1958, to have notably increased the technical efficiency of existing capacity.

Germany: Factors of expansion and contraction
(in real terms).

Items	Change between			Amount in 1958
	1955 and 1956	1956 and 1957	1957 and 1958	
in milliards of Deutsche Mark, at 1958 prices				
Sources of demand				
Private consumption	+ 9.7	+ 5.4	+ 4.2	130.0
Government consumption	+ 0.2	+ 1.8	+ 1.2	30.0
Total consumption	+ 9.9	+ 7.2	+ 5.4	160.0
Gross fixed investment	+ 3.2	+ 0.2	+ 2.0	49.2
Investment in stocks	- 2.9	+ 1.5	—	4.2
Total domestic investment	+ 0.3	+ 1.7	+ 2.0	53.4
Exports of goods and services	+ 6.0	+ 8.1	+ 2.6	55.4
Total demand	+ 16.2	+ 17.0	+ 10.0	268.8
Available supplies				
Gross national product	+ 12.3	+ 10.3	+ 6.2	222.3
Imports of goods and services	+ 3.9	+ 6.7	+ 3.8	46.5
Total supplies	+ 16.2	+ 17.0	+ 10.0	268.8

Note: Figures for 1958 are preliminary. Items do not add up to totals owing to rounding.

Exports of goods and services rose less, in real terms, in 1958 than they had in 1957, owing to the absence of any increase in exports of coal and steel and also of some kinds of consumer goods.

On the supply side of the national accounts the real increase of DM 6.2 milliard in the gross national product and that of DM 3.8 milliard in imports of goods and services were both much smaller than those in 1957.

In real terms current transactions with the rest of the world showed a smaller surplus in 1958 than in 1956 and 1957. In terms of current values, however, the 1958 surplus was larger than that in either of the two preceding years, thanks to the improvement in the terms of trade. This means that in 1958, in terms of current values, total domestic saving exceeded total domestic investment by a greater amount than in 1956 and 1957, despite the continued expansion of the latter.

All sectors of the German economy contributed to this increase in gross saving in 1958; the major contribution, however, came from households, which saved DM 12.5 milliard, or 8.8 per cent. of their disposable income — the highest rate achieved in the post-war period. The gross saving of enterprises rose by only DM 1.8 milliard, and this was more than accounted for by the increase in depreciation, so that their net saving actually declined somewhat. In the case of the "public authorities" sector both gross and net saving showed only a slight increase over the previous year; but the maintenance of such a high level is in itself noteworthy, both because it contradicts repeated forecasts and because it indicates that the public

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

Items	Years	Households ¹	Enterprises	Public authorities	Total
		In milliards of Deutsche Mark			
Investible funds					
Gross saving	1956	6.9	27.0	17.4	51.3
	1957	10.9	29.2	16.0	56.1
	1958	12.5	31.0	16.3	59.8
Depreciation (—)	1956	—	— 16.4	— 1.2	— 17.6
	1957	—	— 18.8	— 1.3	— 20.1
	1958	—	— 20.8	— 1.4	— 22.2
Net saving	1956	6.9	10.6	16.2	33.7
	1957	10.9	10.4	14.7	36.0
	1958	12.5	10.2	14.9	37.6
Net capital transfers	1956	0.4	— 0.6	0.1	— 0.1
	1957	0.3	— 0.1	— 0.6	— 0.3
	1958	0.8	0.2	— 1.2	— 0.2
Total net funds available	1956	7.3	10.0	16.3	33.6
	1957	11.2	10.3	14.1	35.7
	1958	13.3	10.4	13.7	37.4
Uses of investible funds					
Net domestic capital formation	1956	—	23.8	5.5	29.3
	1957	—	24.5	5.7	30.2
	1958	—	25.1	6.2	31.2
Financial surplus or deficit (-)	1956	7.3	— 13.8	10.8	4.3 ²
	1957	11.3	— 14.2	8.5	5.5 ²
	1958	13.3	— 14.7	7.6	6.2 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 Net foreign investment (i.e. balance of payments on current account).

authorities are reluctant to increase their consumption demand even in cyclical phases when demand for new investments is weak.

It is impossible to establish here a direct link between the savings surplus of the public authorities and the figures of the Federal budget. In the first place, the budget is concerned with only a part of the whole public administration, and in the second place, while revenue consists mostly of current items, expenditure includes various items of a capital nature, since outlay on the financing of dwellings and "Autobahnen", contributions to the capital of international institutions and loans to foreign governments, as well

as advance payments to foreign countries in respect of future armaments deliveries, are shown as current expenditure. The cash results of the Federal budget, after deteriorating by DM 3,550 million from 1956 to 1957, showed an improvement of DM 1,950 million for the calendar year 1958. This improvement was due to a rise in tax revenue. Expenditure

Germany:
Cash results of the Federal budget.

Items	Calendar year		
	1956	1957	1958
	round figures, in millions of Deutsche Mark		
Revenue	28,450	29,500	31,400
Expenditure . .	27,250	31,850	31,800
Surplus (+) or deficit (-) .	+ 1,200	- 2,350	- 400

remained stable, in spite of higher capital outlays at home and abroad, the reason being that military expenditure not only remained well below the estimates but even showed a decline of nearly DM 1.5 milliard in comparison with 1957.

Net domestic capital formation increased in 1958 by DM 1 milliard to DM 31.2 milliard, in current values. There was no change in the relative contribution of business enterprises and the public authorities to this total, and the same can be said of the relationship between the financial surpluses or deficits of the three sectors. The surplus of the public authorities declined somewhat, while that of households rose more than the deficit of the enterprise sector. The overall result was, as already mentioned, an increase in the external surplus on current account.

The gross national product of Italy rose in 1958 by 6.1 per cent. in terms of current values and by 4.1 per cent. in volume. This satisfactory development was largely attributable to the very good results obtained in the agricultural sector, the net product of which in 1958 exceeded that in 1957 by more than 11 per cent. in volume and, taking account of an average fall of $4\frac{1}{4}$ per cent. in farm prices, by over 7 per cent. in current values. Industrial output rose, on an average, by 2.7 per cent. over its 1957 level, the rate of increase having been appreciably greater than this in the chemical industry (including the oil-refining industry) and in the electricity and foodstuffs sectors. Engineering also expanded more than the average, thanks chiefly to the increases achieved by the typewriter and motor-car industries. Branches which not only fell behind the average rate of increase but actually failed to reach the 1957 level of output were the textile industry (although synthetic fibres did very well), the rubber industry and the iron and steel industries.

In Italy, as in Germany, employment increased in 1958, but in the case of Italy this rise was only partly offset by a fall in the average number of hours worked. Income of labour rose, to some extent as a result of wage increases, by $6\frac{1}{2}$ per cent. over the 1957 level — more or less the same increase as that in the national product at current prices. As the cost-of-living index rose between 1957 and 1958 by $4\frac{1}{2}$ per cent., the real income of wage and salary-earners increased by about 2 per cent.

The components of national demand and supply and the changes in these between 1956 and 1957 and between 1957 and 1958 are shown — in terms of constant prices — in the following table.

In contrast to the position in 1957, when gross fixed investment and exports together accounted for nearly two-thirds of the increase in demand, in 1958 consumption, public and private, was responsible for over 70 per cent. of the additional total demand, thus clearly taking the lead among the factors of expansion, as has been the case during the present economic phase in many countries.

Italy: Factors of expansion and contraction
(in real terms).

Items	Change between		Amount in 1958
	1956 and 1957	1957 and 1958	
round figures, in milliards of lire, at 1958 prices			
Sources of demand			
Consumption	+ 450	+ 440	12,200
Gross fixed investment	+ 300	—	3,430
Investment in stocks	— 20	+ 40	120
Total domestic demand	+ 730	+ 480	15,750
Exports of goods and services	+ 440	+ 130	2,480
Total demand	+ 1,170	+ 610	18,230
Available supplies			
Gross national product	+ 880	+ 630	15,880
Imports of goods and services	+ 290	— 20	2,350
Total supplies	+ 1,170	+ 610	18,230

Gross fixed investment remained at practically the same level as in 1957, an increase in government investment in public works offsetting a decline in investment by industry. This means, in view of the increase in replacement investment, that net additions to industrial fixed assets actually declined even more. In 1958, for the first time since the war, investment in housing did not rise above the — very high — level of the previous year.

In 1957 investment in stocks had declined in Italy. In 1958 it is estimated to have risen by Lit. 40 milliard, owing entirely to larger stocks of farm products and cattle. Exports of goods and services rose, in terms of 1958 prices, by Lit. 130 milliard. This was much less than the increase in 1957 and was due almost entirely to larger earnings from services, but even the maintenance of a high level of commodity exports did much to sustain the level of activity.

In terms of current values, total gross savings in Italy rose in 1958 by Lit. 340 milliard, or nearly 10 per cent. Both the public and private sectors contributed to the increase, which went almost entirely to improve the country's net current external position, from a deficit of Lit. 190 milliard in 1957 to a surplus of Lit. 130 milliard in 1958.

In the Netherlands the boom which had been in progress since the end of 1952 reached its peak in the spring of 1957 but the external deficit remained. Both before and after the climax of the expansion the authorities took steps (the central bank towards the end of 1956 and again in the summer of 1957 and the government in February 1957) to bring about a more balanced situation. After a certain time-lag — due mostly to the very large backlog of orders on the books of most industries at the beginning of 1957 — there came a phase of readjustment, which, however, lasted only about nine months. The subsequent recovery went on throughout the last three quarters of 1958

and by December of that year the index of industrial production was 5 per cent. above the level reached twelve months earlier. During this period the greatest revival occurred in those branches of industry which had felt the recession most, i.e. the leather, rubber, engineering, paper and textile industries. The level of activity in the foodstuffs sector and the chemical industry was practically unaffected by the recession and continued to rise throughout 1957 and 1958.

National income data, being available only for whole calendar years, tend to conceal the extent of the shifts which have taken place owing to the way in which ups and downs which have occurred during the same year may cancel each other out. Just because of this fact, however, they enable it to be seen how measures designed to restore equilibrium after a period of inflation can operate both effectively and — especially if external developments are favourable — quickly enough for the average level of economic activity to show no more than a relatively slight difference between 1957, the year in which it reached its peak, and 1958, when the trough of the subsequent recession was reached.

Netherlands: Factors of expansion and contraction
(in real terms).

Items	Change between		Amount in 1958
	1956 and 1957	1957 and 1958	
	round figures, in millions of florins, at 1958 prices		
Sources of demand			
Consumer expenditure	— 170	+ 130	21,250
Government consumption	— 130	— 60	5,080
Total consumption	— 300	+ 70	26,330
Net fixed investment	+ 100	— 970	4,670
Investment in stocks	+ 640	— 780	130
Total net investment	+ 740	— 1,750	4,800
Exports of goods and services	+ 920	+ 1,220	17,180
Total demand	+ 1,360	— 460	48,310
Available supplies			
Net domestic product	+ 790	+ 60	32,250
Imports of goods and services	+ 570	— 520	16,060
Total supplies	+ 1,360	— 460	48,310

Note: Data from the Central Bureau of Statistics recalculated on the basis of 1958 prices.

In 1957 the volume of total domestic demand (viz. total consumption plus investments in fixed assets and in stocks) in the Netherlands expanded less than the domestic product. Indeed, consumption actually declined. Investment outlay, consisting largely of additions to stocks, increased. There was thus an improvement in the country's net balance with the rest of the world, but there was still a deficit in the current balance of payments of nearly Fl. 500 million. This situation was completely reversed in 1958, partly because of the measures against inflationary financing adopted by the monetary and fiscal authorities and partly thanks to the fall in import prices.

Consumer expenditure increased in 1958 by Fl. 130 million, but nearly half of this rise was offset by a fall in government consumption. It was in the investment sector that the biggest changes took place in 1958. Net fixed investment declined by Fl. 970 million and additions to stocks by Fl. 780 million, so that there was, altogether, a fall of Fl. 1,750 million. The decline in investment released resources for the export sector while reducing the demand for imports. Exports in fact rose by Fl. 1,220 million, while imports declined by Fl. 520 million, so that the overall improvement vis-à-vis the rest of the world came to Fl. 1,740 million.

The following table shows, in current values, the actual amounts of net savings, capital transfers, net investments and the resulting financial surplus for the main economic sectors. Although this table differs in presentation from the preceding one, the conclusions which it suggests are the same. All sectors had, in the three years under review, a surplus of current income over current expenditure, as is shown by the positive figures for net savings. No separate data are available for saving by consumers and

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

Items	Years	Central government	Local authorities	Institutional investors ¹	Private sector	Total	
		round figures, in millions of florins					
Net saving	1956	870	230	1,830	1,940	4,870	
	1957	980	190	1,750	3,100	6,020	
	1958	800	200	2,370	3,020	6,390	
Net capital transfers ² .	1956	— 750	— 850	150	1,450	—	
	1957	— 790	— 1,060	130	1,720	—	
	1958	— 80	— 1,000	—	1,080	—	
Net investment (—) . .	1956	— 300	— 640	—	— 4,620	— 5,560	
	1957	— 310	— 620	—	— 5,570	— 6,500	
	1958	— 360	— 530	—	— 3,910	— 4,800	
Financial surplus or deficit (—)							
	Transactions basis . .	1956	— 180	— 1,260	1,980	— 1,230	— 690
	1957	— 120	— 1,490	1,880	— 750	— 480	
1958	360	— 1,330	2,370	190	1,590		
Cash basis	1956	110	— 1,230	1,870	— 1,380	— 630	
	1957	330	— 1,540	1,650	— 880	— 420	
	1958	— 480	— 1,200	2,580	790	1,690	

¹ Includes the savings banks, life assurance companies, pension funds and social insurance funds.

² Excludes capital transfers to foreign countries and, in 1957 and 1958, monetary credits to and repayments from the local authorities.

Sources: Central Plan Bureau, Central Economic Plan 1959; Nederlandsche Bank, Report for the year 1958.

business saving, but a reasonably accurate idea may be obtained if the amount under the heading "institutional investors" is taken to represent mainly consumer saving and that under "private sector" largely business saving. On this basis it would appear that there was in 1958 a revival in saving by individuals, representing partly a recovery from the previous year's decline, while business saving, which reached a very high level in 1957, fell in 1958; in part, however, this shift was a swing-back after a movement

which occurred in the autumn of 1957 away from individual saving with the savings banks and towards security purchases.

In 1958 net capital transfers from the public sector to the private sector were Fl. 770 million less than in 1957; but they still formed a substantial addition to the private sector's own saving. The development of net domestic investment from 1957 to 1958 in terms of current values does not show any marked difference from that in real terms. While public investment outlay remained practically unchanged, private investment fell by nearly Fl. 1.7 milliard to Fl. 3.9 milliard, so that the private sector's net saving, plus its capital transfer receipts, was more than sufficient to cover investment outlay and even left a financial surplus, quite apart from the Fl. 2.4 milliard of new resources which accrued to the institutional investors in 1958.

On a transactions basis the public sector showed a financial deficit of Fl. 1.0 milliard (Fl. 0.6 milliard less than in 1957); this was about two-fifths of the surplus of the private sector (including the institutional investors) and the final net result appears as a current surplus vis-à-vis the rest of the world of Fl. 1.6 milliard on a transactions basis, the surplus on a cash basis being even larger.

The following table shows, in concise form, the factors of expansion and contraction that were at work during 1957 and 1958 in the three Scandinavian countries and Austria.

Factors of expansion and contraction in four European countries
(in real terms).

Increase or decrease (-) in	Years	Austria	Denmark	Norway	Sweden
		round figures, in millions of national currency units, at 1958 prices			
Consumption, private and public . . .	1957	3,400	760	510	1,100
	1958	3,700	680	- 100	990
Gross investment in fixed assets and stocks	1957	2,100	560	140	1,180
	1958	800	- 530	100	- 460
Total domestic demand . .	1957	5,500	1,320	650	2,280
	1958	4,500	150	-	530
Exports of goods and services	1957	4,500	840	410	930
	1958	500	930	290	- 210
Total demand	1957	10,000	2,160	1,060	3,210
	1958	5,000	1,080	290	320
Gross national product	1957	6,500	1,850	890	2,390
	1958	4,200	420	- 270	560
Imports of goods and services	1957	3,500	310	170	820
	1958	800	660	560	- 240
Total supplies	1957	10,000	2,160	1,060	3,210
	1958	5,000	1,080	290	320
Amount of gross national product. . .	1958	130,000	36,500	31,400	59,700

In 1958 the gross national product, in real terms, declined in Norway, whereas in Austria, Denmark and Sweden it continued to rise, though at a slower rate than in the previous year. Norway was also the only country in which there was a fall — of 3 per cent. — in industrial production. In Sweden it remained unchanged and in Denmark and Austria it increased by 1 and 3 per cent. respectively.

Total consumption declined in Norway by N.Kr. 100 million in 1958, a small increase in government expenditure having been more than offset by a fall in private consumption. In the other countries consumption continued to expand; in Denmark and Sweden, however, the increase was smaller than in the previous year, while in Austria it was greater.

Gross investment went on rising in Austria and Norway, since in both countries the increase in fixed investment was greater than the fall in investment in stocks. In Denmark and Sweden, on the other hand, the decline in stock accumulation exceeded the growth in fixed investment. In all three Scandinavian countries stocks were actually reduced.

Sweden's exports of goods and services declined in volume; from a balance-of-payments point of view, however, the reduction was more than offset by the fall in the volume of its imports. Austria and Norway continued to expand their exports, though less than in 1957, and Denmark even succeeded in improving on its already very good performance of the previous year.

In 1958 the gross national product of the United States, at \$437.7 milliard, showed, in terms of constant (1958) prices, a decline of 3 per cent. compared with 1957, in which year it had been 1 per cent. higher than in 1956. Among the components of total output, the net added value of agriculture and services was higher in 1958 than in 1957. Services, both private and governmental, continued to expand in terms both of volume and of price. Record results were achieved in 1958 in the agricultural sector (with an 11 per cent. increase over 1957 in the volume of crops), while an extension of the official price-support policy allowed the farmers to reap the full benefit of the improvement in output.

Increases in the output of agriculture and services offset about one-half of the loss in production suffered by industry. Industrial production declined altogether by 6 per cent. in 1958, compared with the previous year. The trend in the different branches of industry, however, was far from uniform. Whereas the output of non-durable goods was maintained, that of minerals (including coal, iron ore and non-ferrous metals) decreased by 9 per cent., and production of durable goods fell by as much as 12 per cent. owing to inventory adjustments and the cut in business spending on investment in fixed assets. The production of household durables suffered only a very slight decline in 1958, while the output of motor-cars, at 5.1 million units, was one-third below the 1957 figure and at its lowest level since 1947 — and this in a year in which sales of foreign cars in the U.S. market reached 380,000 units and when, for the first time on record, the total number of imported cars and lorries exceeded

that of U.S. shipments abroad. The volume of new construction was somewhat larger in 1958 than in the previous year, the increase in private house-building and in government construction having more than offset the reduction in private non-residential building.

The trend of the components of the gross national product of the United States in the last two recessions has been shown and discussed in Chapter I. In terms of current values, gross private saving increased by \$2.1 milliard in 1957 and declined very slightly in 1958. In both cases the net movement was the result of a change in business saving, as fluctuations in personal saving were less significant and were in the opposite direction to those in business saving. A much more important rôle was played by government saving, which decreased in 1958 by \$11.9 milliard, with the result that there was an actual dissaving of \$10.2 milliard. Whereas overall gross saving declined only slightly between 1956 and 1957, it fell by as much as \$12.2 milliard between 1957 and 1958.

United States: Saving and investment.

Items	Change between		Amount in 1958
	1956 and 1957	1957 and 1958	
In milliards of current dollars			
Gross domestic saving			
Persons	— 0.3	+ 0.3	21.0
Business	+ 2.4	— 0.6	45.0
Total private saving	+ 2.1	— 0.3	66.0
Government	— 4.6	— 11.9	— 10.2
Overall total*	— 2.5	— 12.2	55.8
Gross investment			
Domestic	— 2.9	— 10.9	54.4
Foreign (net)	+ 2.1	— 3.3	0.2
Total*	— 0.8	— 14.2	54.6

* The differences between the totals are due to statistical discrepancies.

During this period, however, capital consumption allowances continued their upward trend and consequently net national saving contracted even more than gross saving.

The sharp decline in gross domestic investment in 1958 was not great enough to offset the fall in new saving, with the result that net foreign investment was reduced to practically nothing — the increase in long-term lending abroad having been only slightly greater than that in short-term liabilities to foreigners plus the loss of gold.

Within the business sector, the total gross investment of corporations and their amortisation allowances have shown a very marked tendency to converge during the past three years.

United States: Corporate investment and saving.

Items	1956			1957			1958		
	in billions of current dollars								
Investment									
Plant and equipment (gross) . . .	29.9			32.7			26.5		
Stocks	8.4			1.7			—	4.5	
Total gross investment . . .	38.3			34.4			22.0		
Amortisation allowances (—) . . .	— 17.7			— 19.7			— 21.5		
Total net investment . . .	20.6			14.7			0.5		
Saving									
Profits after taxes*	20.5			20.3			17.7		
Dividends paid (—)	— 12.0			— 12.4			— 12.3		
Undistributed profits	8.5			7.9			5.4		
Financial surplus or deficit (—)	— 12.1			— 6.8			4.9		

* Includes inventory-valuation adjustments.

In 1956 replacement investment accounted for 46 per cent. of total gross investment; the proportion rose to 57 per cent. in 1957 and to 98 per cent. in 1958, when amortisation allowances amounted to \$21.5 milliard, against total gross investment of \$22 milliard. Profits after taxes, which had not changed much between 1956 and 1957, declined by 13 per cent. in 1958. As dividends were kept unchanged, undistributed profits — i.e. the net saving of corporations — were reduced from \$7.9 milliard in 1957 to \$5.4 milliard in 1958; in the latter year, however, they were not needed to cover domestic investment outlays and were used almost exclusively for the net acquisition of financial assets.

The above-mentioned shift in the public sector from net saving to net dissaving is shown in greater detail in the following table.

United States: Government revenue and expenditure.

Items	1956			1957			1958		
	Federal	State and local	Total	Federal	State and local	Total	Federal	State and local	Total
in billions of current dollars									
Revenue									
Taxes	68.2	29.8	98.0	70.3	31.8	102.1	66.6	33.4	100.0
Social insurance contributions . .	10.5	1.8	12.3	12.2	2.0	14.2	12.3	2.1	14.4
Transfers	—	3.3	3.3	—	4.1	4.1	—	5.2	5.2
Total revenue	78.7	34.9	113.6	82.5	37.8	120.3	78.8	40.8	119.6
Expenditure									
Purchases of goods and services	45.7	33.1	78.8	49.4	36.3	85.7	51.7	39.6	91.3
Transfers and grants	18.2	3.6	21.8	21.4	4.0	25.4	26.4	4.3	30.7
Other expenditure	8.0	—1.2	6.8	8.7	—1.3	7.4	9.1	—1.3	7.8
Total expenditure	71.9	35.5	107.4	79.6	39.0	118.6	87.3	42.5	129.8
Surplus (+) or deficit (—) . . .	+6.8	—0.6	+6.3	+2.9	—1.2	+1.7	—8.5	—1.7	—10.2

The budgetary measures adopted late in 1957 and early in 1958 with a view to overcoming the contractive forces in the U.S. economy included an increase in government support for house-building, in defence expenditure and in the rate of civil procurements and of construction in connection with non-defence programmes, and an extension of unemployment benefits. It is thus on the expenditure side of the aggregate public budgets, rather than on the revenue side, that the effects of the policy measures can be seen.

Between 1956 and 1958 total government revenue did not change much. Expenditure, on the other hand, rose from \$107.4 milliard in 1956 to \$118.6 milliard in 1957 and \$129.8 milliard in 1958. In two years the increase amounted to \$22.4 milliard, i.e. a full 20 per cent., proportionally distributed between the Federal Government and the State and local authorities. In absolute terms, purchases of goods and services rose by \$12.5 milliard and transfer payments by \$8.9 milliard, but in relative terms the latter type of expenditure — in which social security payments represent the main item — rose more than the former. Chiefly as a result of this increase in expenditure, the overall surplus of \$6.3 milliard in 1956, which had already been reduced to one of \$1.7 milliard in 1957, was replaced in 1958 by a deficit of \$10.2 milliard, of which over four-fifths was accounted for by Federal expenditure.

* * *

In the preceding pages a survey has been given of changes in the components of national income and expenditure in 1957 and 1958 in ten countries. Of these countries, seven showed an increase in their gross domestic product in both years. In 1958, however, the expansion was smaller than in the previous year.

In three countries — Norway, the United Kingdom and the United States — an increase in 1957 was followed by a decline in 1958, but only in the United States was the fall greater than the previous rise.

In the case of Norway the terms of trade deteriorated sharply (mostly because of a fall in shipping receipts) and consequently the decline in the gross domestic product in terms of constant prices does not give a true picture of the real decrease in the resources remaining available for use on the domestic market when the amount of exports required to pay for a given volume of imports has been deducted from the national product. The other countries all benefited, in varying degrees, from an improvement in their terms of trade, which, although of minor significance in the case of the United States, was so great in that of the United Kingdom, for instance (over £300 million), that it more than made good the reduction in the national product that would have occurred if the terms of trade had remained unchanged.

The improvement in the terms of trade, together with an almost universal slowing-down (and sometimes even decline) in the rate of expansion of consumption and investment, was reflected in the higher level of internal and external liquidity which was a major feature in most countries in 1958.

III. Money, Credit and Capital Markets.

The main propulsive force behind the recent rapid economic expansion in the western countries, which came to a halt in 1957-58, was a booming private demand for durable investment and consumption goods. The expansion was partly financed — to an extent which made inflation a serious problem — by bank credit and a drawing-down of liquid assets. Under these circumstances the restrictive policies adopted by different countries, although carried out with varying degrees of forcefulness and success, helped to mitigate the intensity of the boom, thus rendering less severe the inevitable subsequent readjustments. The moderate character of the decline which took place in the actual level or rate of increase of economic activity was therefore partly attributable to the comparative success of official efforts in earlier years to restrain the pace of expansion.

While, however, the domestic impact of the recessionary tendencies was comparatively mild in most countries, the fact that they were accompanied by massive shifts in the distribution of foreign exchange reserves had special and far-reaching effects upon the shaping and execution of monetary and debt-management policies in the various countries. The reason is a simple and familiar one. Since almost the whole of any net increase in foreign exchange reserves is normally sold to the central bank in exchange for local currency, its effect is much the same as that of any other increase in the supply of central-bank funds to the economy. The net sales of foreign exchange to the central bank not only involve a primary increase in the community's holdings of liquid assets but, in so far as this results in a rise in deposits held with the banking system, also provide the basis for a multiple expansion of credit. For countries which experienced large net gains in their foreign exchange holdings — and these included most of the more developed countries of western Europe, with the exception of France and Sweden — the problem, as seen in most cases, was to permit an increased desire for private liquidity to be satisfied while at the same time reducing excess bank liquidity and ensuring an orderly downward adjustment of interest rates. In such countries, therefore, there was no inconsistency in the concurrence of extensive measures of a normally restrictive character (increases in reserve requirements, open-market sales of securities, funding operations, etc.) with reductions in discount rates, a downward drift in the general structure of interest rates and certain positive monetary and fiscal measures designed to stimulate domestic demand. In the United States, on the other hand, the opposite situation prevailed during the recession phase, since the exceptionally large outflow of gold, by correspondingly reducing the credit base of the banking system, made it necessary for the Federal Reserve authorities to supply additional reserves to the banks on a scale considerably exceeding that of their interventions in the two previous post-war recessions.

The voluntary repayment of debt to the central bank tended automatically, of course, to cause some sterilisation of funds created by the central bank's

financing of net acquisitions of foreign exchange earnings. In nearly all continental western European countries which experienced large reserve increases (other than in Denmark and Norway) the central bank's claims on the private sector (i.e. mainly the banking sector) declined from 1957 to 1958. Except in the case of Belgium and Finland, however, these declines were generally small in relation to the total inflow of foreign exchange reserves.

As regards policy measures, the broad considerations that helped to determine the degree of offsetting undertaken in each particular country varied rather widely. In the Netherlands, for instance, where the inflow of foreign exchange was regarded as largely due to special and temporary factors, the sterilisation of bank liquidity was very extensive. In Germany, which has been evolving as a structural capital exporter, the degree of offsetting appears to have been conditioned by the desire to encourage a further gradual decline in the general structure of interest rates and a strengthening of the capital market. In Italy, where after years of steady improvement the balance-of-payments has been recently tending towards surplus but where there is also a pressing need for domestic capital formation, no extensive measures were taken in 1958 to offset the liquidity effects of the foreign exchange inflow. Nor was much done in Switzerland, a traditional capital-exporting country, one measure adopted instead having been to remove the prohibition on foreign capital issues that had been in effect for about two years.

In the first place, the net borrowing and debt-management operations of the public authorities in the various European countries were carried out in 1958 with a particular view to influencing market liquidity, although budgetary exigencies limited the scope of these operations in varying degrees. In the United Kingdom, where the overall budget deficit was actually somewhat smaller in 1958-59 than in the previous financial year, the Exchequer was able to raise sufficient funds (mainly thanks to a marked increase in National Savings) not only to finance the Exchange Equalisation Account's additional holdings of exchange reserves but also to repay certain foreign debts and to make net redemptions of (mostly) short-term debt held by the public. In the Netherlands the public authorities borrowed heavily in both the money and capital markets, the local authorities using part of the proceeds to repay indebtedness to the central bank and to increase their liquid assets, while the central government greatly improved its balance with the central bank and made certain repayments of foreign debt. In Norway, where the central government's budget surplus increased sharply and was more than sufficient to cover total lending to the state banks, the government continued to borrow market funds in excess of the amounts needed to redeem maturing debt, using the additional financial resources largely to increase its deposits with the central bank. In Finland the funds accruing to the central government as a result of the export-levy system (adopted at the time of the devaluation of September 1957 and abolished in September 1958) were partly used for redeeming government debt held by the central bank and partly earmarked for long-term loans. The German Federal Government once again realised in 1958, as it had done in a

number of years before 1957, a large cash surplus in its "domestic" budget accounts; but, in contrast to what happened in earlier years, these funds were not reflected in a net increase in the government's deposits with the central bank but were expended abroad in a variety of ways. In Belgium, where a large growth in liquidity of external origin coincided with a sharp deterioration in the government's budget, the Treasury borrowed heavily at medium and long term. The Swiss Government, which made very large net redemptions of maturing debt in 1958, also, in agreement with the central bank, placed a special issue of Treasury certificates on the market late in the year in order to reabsorb part of the liquidity it had created. It may also be mentioned in the present context that in Italy during 1958 the Treasury converted most of the large first-maturing issue of the post-war series of nine-year Treasury bonds, which was to fall due on 1st April 1959.

Changes in obligatory reserve requirements, although a means of control rather well suited for dealing with the liquidity effects of unusually large movements of gold and foreign exchange, were not widely resorted to in 1958. In the United States reductions in cash-reserve requirements made in the first half of 1958 provided additional reserve funds (\$1.5 milliard) approximately equal to the gold outflow during the same period (\$1.45 milliard). In the Netherlands the cash-reserve requirement was raised, in stages, from 4 per cent. to 10 per cent. between February and August 1958. In Italy no change was made in 1958 in the level of the ratio (25 per cent., coverable partly by holdings of government securities) which the commercial banks must maintain between their reserves and their total deposit liabilities; this requirement was, however, sufficiently high and broad in coverage to act as a partial liquidity offset to foreign exchange inflows, and it was extended in 1958 to apply also in modified form to the deposits of the savings banks.

Open-market security transactions played an important rôle in some countries in 1958. During the year as a whole the U.S. Federal Reserve System added over \$2.1 milliard to its holdings of government securities. In western Europe, on the other hand, the Nederlandsche Bank sold securities on a large scale in order to augment still further the liquidity-absorbing effects of the raising of reserve requirements and extensive security sales by the public authorities to the public. In Germany, owing largely to the improvement in the Federal Government's domestic cash budget position, the Bundesbank's net sales of open-market securities did not need to be anything like as large in 1958 as they had been in 1957. In Denmark the central bank, after having sold bonds on the market on a large scale in the first half of 1958, introduced in June a new three-month negotiable "deposit certificate" (issued at varying interest rates) for the purpose of reducing excess bank liquidity, and the banks have invested heavily in the new medium. In Switzerland the National Bank sold a small amount of bills to the commercial banks and placed on the open market a sizable quantity of bonds belonging to the Federal Government. In Belgium, by way of contrast and more in line with what happened in the United States, the

Changes in official discount rates since July 1955.

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		Germany (Fed. Rep.)		Pakistan	
1st October 1946 . . .	3.4	20th May 1954 . . .	3	1st July 1948	3
1st December 1957 . .	6	4th August 1955 . . .	3½	14th January 1959 . . .	4
Austria		8th March 1956 . . .	4½	Philippines	
20th May 1955	4½	19th May 1956	5½	July 1955	2
17th November 1955 . .	5	6th September 1956 . .	5	2nd September 1957 . .	4½
23rd April 1959	4½	11th January 1957 . . .	4½	Salvador	
Belgium		19th September 1957 . .	4	22nd March 1950	3
29th October 1953 . . .	2¾	17th January 1958 . . .	3¾	12th April 1957	4
4th August 1955	3	27th June 1958	3	South Africa	
6th December 1956 . . .	3½	10th January 1959 . . .	2¾	27th March 1952	4
25th July 1957	4½	Greece		29th September 1955 . .	4½
27th March 1958	4½	1st January 1955	9	5th January 1959	4
5th June 1958	4	1st May 1956	10	Spain	
3rd July 1958	3¾	India		1st July 1954	3¾
28th August 1958	3½	15th November 1951 . . .	3¾	10th September 1956 . . .	4½
8th January 1959	3¾	16th May 1957	4	22nd July 1957	5
Belgian Congo		Ireland		Sweden	
1st January 1954	3¾	25th May 1954	3	19th April 1955	3¾
1st August 1957	4	19th December 1955 . . .	4	23rd November 1956 . . .	4
1st January 1959	3¾	26th May 1956	5	11th July 1957	5
Brazil		30th September 1957 . . .	6	3rd May 1958	4½
14th October 1954	8	28th March 1958	5½	Switzerland	
16th May 1956	6	31st May 1958	5	28th November 1936 . . .	1½
9th April 1958	8	2nd September 1958 . . .	4½	15th May 1957	2½
Canada		28th November 1958 . . .	4½	26th February 1959	2
15th February 1955 . . .	1½	Italy		Turkey	
6th August 1955	2	6th April 1950	4	28th June 1955	4½
13th October 1955	2½	7th June 1958	3¾	6th June 1956	6
19th November 1955 . . .	2¾	Japan		United Kingdom	
5th April 1956	3	1st October 1951	5.84	24th February 1955	4½
10th August 1956	3¾	10th August 1955	7.30	16th February 1956	5½
18th October 1956	3½	20th March 1957	7.665	7th February 1957	5
1st November 1956	*	8th May 1957	8.395	19th September 1957 . . .	7
Chile		18th June 1958	7.665	20th March 1958	6
12th June 1935	4½	5th September 1958 . . .	7.30	22nd May 1958	5½
23rd January 1957	6	19th February 1959	6.935	19th June 1958	5
Colombia		Libya		14th August 1958	4½
19th September 1932 . . .	3-6	1st April 1956	4½	20th November 1958	4
1st May 1958	6-12	15th April 1957	4	United States	
Denmark		1st October 1957	5	15th April 1955	1½
23rd June 1954	5½	Netherlands		5th August 1955	2
19th April 1958	5	7th April 1953	2½	9th September 1955	2½
15th August 1958	4½	7th February 1956	3	18th November 1955	2½
Finland		25th August 1956	3¾	13th April 1956	2½
1st December 1954	5-7½	22nd October 1956	3¾	24th August 1956	3
19th April 1956	6½-8	17th July 1957	4½	23rd August 1957	3½
1st October 1958	7¼**	16th August 1957	5	15th November 1957	3
1st March 1959	6¾**	24th January 1958	4½	24th January 1958	2¾
France		26th March 1958	4	7th March 1958	2½
2nd December 1954	3	14th June 1958	3½	18th April 1958	1½
12th April 1957	4	15th November 1958 . . .	3	12th September 1958	2
13th August 1957	5	21st January 1959	2¾	7th November 1958	2½
16th October 1958	4½	New Zealand		6th March 1959	3
5th February 1959	4¼	26th November 1954 . . .	4	29th May 1959	3½
23rd April 1959	4	1st July 1955	5		
		5th September 1955 . . .	6		
		19th October 1955	7		

* Since 1st November 1956 the Canadian Bank rate has been fixed each Thursday at ½ per cent. above the latest average tender rate for Treasury bills. On 21st May 1959 it was 5.30 per cent. ** Basic discount rate.

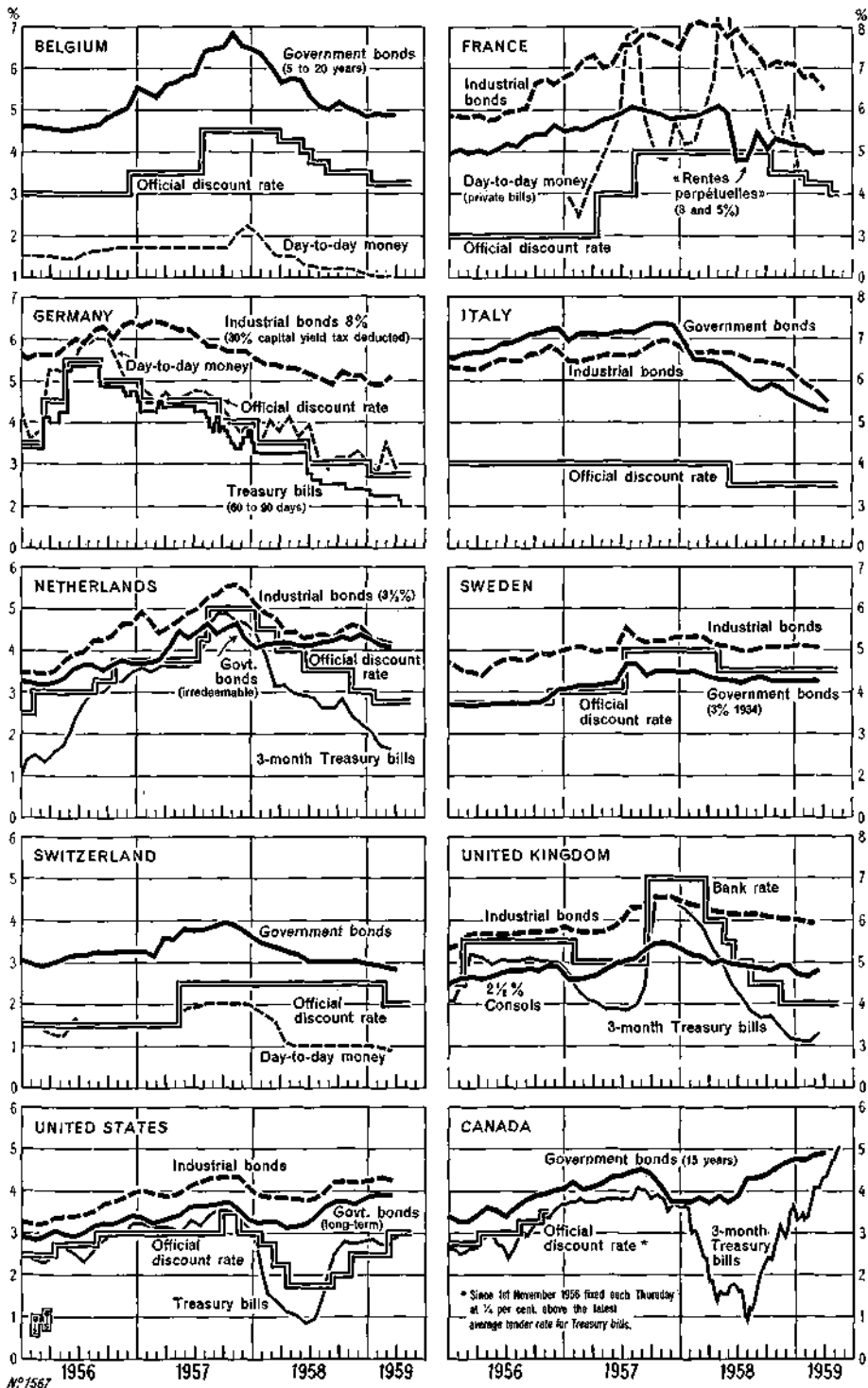
Fonds des Rentes appears to have purchased securities on a moderate scale in 1958, this action having been connected with the large increase in the financial requirements of the Treasury and the desire to bring interest rates down. Finally, in Italy a basis for open-market operations on a limited scale was provided by the creation in 1958 of a special "Fund for the purchase of nine-year Treasury bonds", which, in the financial year 1958-59, began to receive budget funds to be used for debt redemption by means of purchases on the security market.

The diverse liquidity-absorbing measures undertaken by various western European countries helped, as has already been stressed, to make the downward adjustment of interest rates more orderly, if somewhat more prolonged. Looking first in broad terms at changes in central-bank discount rates, it will be seen from the table on the preceding page that discount rates have been reduced, in some cases very substantially, in most western European countries. Indeed, in 1958 there were twenty-five individual reductions, with no increases, and the same trend has continued in 1959 to date, there having been eight further cuts and no increases. On the other hand, Canada's flexible discount rate has risen considerably since the middle of 1958, and the United States increased its rate four times between September 1958 and May 1959. In western Europe, where the combined industrial output of all countries has shown a slight rise since the middle of 1958, it is noteworthy that the declines in money-market rates, though slowed down by the official measures described above, have been in progress for one and a half years and have thus become quantitatively very significant. It remains to be seen, however, what effect the recent continued upward movement of interest rates in the United States will have on those of European countries. In most of the countries outside Europe and North America, with the important exception of Japan, central-bank discount rates either remained at the same levels or were increased in 1958 and the early part of 1959.

Long-term interest yields in western European countries began to fall late in 1957, except in western Germany, where the decline had set in at the beginning of the year, and in France, where business activity remained at a high level until the summer of 1958. The most pronounced declines took place in Italy and Belgium, where financial policy was conditioned by the high level of unemployment. Compared with what happened in the other countries, money-market rates in the United Kingdom and the Netherlands moved down sharply in relation to long-term government bond yields, this reflecting in both cases official debt-management policies. In the spring of 1959, long-term interest yields in all the western European countries shown in the graph were, in varying degrees, a good deal lower than their previous peaks.

Interest-rate reductions in western European countries had, of course, the effect not only of encouraging domestic activity but also of regulating the net inflow of foreign capital and thus domestic liquidity. In a number of instances, indeed, the timing and extent of reductions in central-bank discount rates were strongly influenced by external considerations.

Short and long-term interest rates.



In addition to the above-described measures a wide variety of other credit measures were taken by countries in western Europe. For instance, previous credit ceilings were removed (the United Kingdom, the Netherlands, Norway) or existing arrangements relaxed (France), consumer instalment restrictions lifted (the United Kingdom) or relaxed (France, the Netherlands), personal loan facilities increased (the United Kingdom, Sweden, the Netherlands, Finland), capital issues decontrolled (the United Kingdom) or more liberally authorised (Italy, Finland) and various types of previously blocked funds released (Sweden, Norway, Finland). While some of these measures involved only the relaxation or removal of previously existing selective controls, they were nevertheless of such a nature as to give a useful stimulus to spending and domestic activity in the countries concerned.

* * *

In the United States the pattern of financial developments in 1958 helped to make the recession in that country a short-lived and comparatively mild one. The sequence of these events, together with the trends of interest rates and policy formation, has already been discussed at some length in Chapter I. In this section the accompanying changes in inter-sectoral lending and borrowing activity are examined in a rather different perspective with the help of the Federal Reserve System's flow-of-funds accounts.

In the table* on the next page it will be noticed that for each sector the net acquisition of financial assets is divided into three categories: money, savings media and credit-market instruments (including net new issues of equities). Movements in the first two categories consist mainly of changes in deposits and other fixed-value redeemable claims held with financial institutions, which, being intermediaries, acquire a roughly equivalent amount of credit-market claims through their lending and investing activities. For this reason, the best (though still approximate) measure of net new credit formation during any given period is provided by the growth in total credit-market claims, which came to \$53.6 milliard in 1958, compared with \$42.7 milliard in 1957. The increase in 1958 was accounted for in roughly equal measure by three broad lending groups: the commercial banks (\$17.0 milliard), other financial institutions (\$20.4 milliard) and the non-financial sectors as a whole (\$16.1 milliard). Thus, over two-thirds of the growth in credit was attributable to the lending activities of financial institutions.

The corporate sector, after having had large financial deficits of \$10.3 milliard in 1956 and \$8.5 milliard in 1957, appears to have become a small net lender of funds to other sectors in 1958. As may be seen in the table, the change was associated not so much with a slowing-down in the growth of the sector's financial liabilities, which rose in 1958 by

* In the table the difference in any given year between a sector's net acquisition of financial assets and its net acquisition of financial liabilities represents its net investment in financial claims, or its "financial" surplus, which is also equal (save for statistical discrepancies, which arise with both methods of estimation) to the sector's current investible surplus minus its own capital expenditure.

almost as much as in 1957, as with an increase in its net acquisition of financial claims. Moreover, long-term funds raised through mortgage borrowing and the issue of bonds and equities amounted to \$10.6 milliard, or more than the total net increase in financial liabilities, the difference being explained largely by a reduction in bank credit. The building-up of financial assets in 1958 was concentrated mainly in the second half of the year, when economic recovery had got under way, increases in cash balances, time deposits and government-security holdings having more than offset the declines which took place in the first half. In addition, customer accounts receivable began to increase substantially after the first quarter of the year.

United States: Net acquisition of financial claims, by sectors, 1956-58.

Sectors	Years	Net acquisition of financial assets				Less: net increase in financial liabilities	Equals: financial surplus (+)
		Money ¹	Savings media ²	Credit and equity-market claims ³	Total		
in milliards of dollars							
Consumer ⁴	1956	- 0.1	12.4	8.9	21.2	15.1	6.1
	1957	- 2.0	13.1	10.0	21.1	11.6	9.5
	1958	0.7	16.8	4.4	21.9	13.0	8.9
Corporate	1956	0.6	- 0.2	4.0	4.4	14.7	-10.3
	1957	- 0.6	- 0.2	2.7	1.9	10.4	- 8.5
	1958	2.4	0.5	7.4	10.3	9.8	0.5
Non-corporate and farm	1956	0.2	-	0.7	0.9	5.8	- 4.7
	1957	0.2	-	0.1	0.3	4.7	- 4.4
	1958	-	-	0.2	0.2	.	.
Federal Government . .	1956	- 0.2	0.4	1.2	1.4	- 5.3	6.8
	1957	0.1	0.7	2.3	3.1	- 0.6	3.7
	1958	0.6	0.7	2.6	3.9	8.3	- 4.4
State and local government	1956	0.2	- 0.1	2.3	2.4	3.6	- 1.2
	1957	0.2	0.3	2.3	2.8	5.1	- 2.3
	1958	- 0.1	0.6	1.5	2.0	6.4	- 4.4
Commercial banking ⁵ .	1956	0.4	- 0.5	5.2	5.1	4.3	0.9
	1957	0.9	- 0.3	4.9	5.5	4.8	0.7
	1958	- 2.2	-	17.0	14.7	12.8	1.9
Other financial institutions ⁶	1956	0.1	- 0.3	17.7	17.5	12.2	5.3
	1957	0.2	- 1.2	19.4	18.6	12.9	5.8
	1958	0.8	- 7.0	20.4	20.2	13.2	7.0
Rest of the world ⁷ . . .	1956	- 0.1 ⁸	- 0.1	1.8	1.6	3.6	- 2.0
	1957	- 0.6 ⁸	- 0.5	1.0	- 0.1	4.0	- 4.1
	1958	2.3 ⁹	1.0	-	3.3	3.9	- 0.6
Total ⁹	1956	1.3	11.5	41.8	54.6	54.0	0.6
	1957	- 1.0	12.1	42.7	51.4	52.9	- 1.5
	1958	4.3	18.6	53.6	76.5	.	.

¹ Currency, demand deposits and gold holdings. ² Fixed-value claims in the form of time and savings deposits, shares in savings and loan associations and credit unions, U.S. savings bonds, equity in life assurance and miscellaneous deposits. ³ Includes Federal obligations, State and local obligations, corporate bonds and shares, mortgages, consumer credit, other bank loans, trade credit, miscellaneous loans and other financial transactions but does not include proprietors' net investment in unincorporated business. ⁴ Includes non-profit-making organisations. ⁵ Includes the Federal Reserve System. ⁶ Includes mutual savings banks, savings and loan associations, credit unions, insurance companies (and self-administered pension plans) and a residual group of miscellaneous financial institutions (including investment companies). ⁷ Net change in financial assets or liabilities of the rest of the world vis-à-vis the United States. ⁸ Foreign bank deposits in the United States plus net gold purchases (+) of the rest of the world. ⁹ Includes statistical discrepancies.

Source: Federal Reserve Board. The 1958 figures, in italics, are provisional.

In the consumer sector the growth of net financial assets in 1958 as a whole was the same as in 1957, but there was a marked shift towards holding assets in more liquid form. Together, cash balances and savings media increased by \$17.5 milliard, as against \$11.1 milliard in 1957, while investment in various credit-market instruments dropped to \$4.4 milliard from \$10.0 milliard in the preceding year. The net acquisition of corporate bonds fell off appreciably, while holdings of Federal obligations (excluding savings bonds) declined in absolute terms. On the other hand, borrowing by the consumer sector increased, mainly because of an acceleration in mortgage borrowing after mid-year, and thus was associated with a moderate decline in the sector's financial surplus. Consumer credit outstanding changed relatively little in 1958, owing to the comparative weakness of demand for motor-cars combined with steady repayment of credits outstanding.

The Federal Government's position deteriorated sharply from a financial surplus of \$3.7 milliard in 1957 to a deficit of \$4.4 milliard in 1958. This change, combined with the slight diminution in the consumer sector's financial surplus, was almost exactly matched by the corporate sector's shift from a deficit to a small surplus. These opposite movements, however, did not entail merely a re-channelling of a certain amount of loanable funds away from the corporate sector towards the public sector. Indeed, as has been seen, both the corporate and consumer sectors continued to borrow heavily, particularly at long term. Moreover, the State and local governments came to the capital market with record net security issues of \$6.4 milliard, while net foreign flotations in the U.S. market also rose remarkably, doubling the volume of the preceding year.

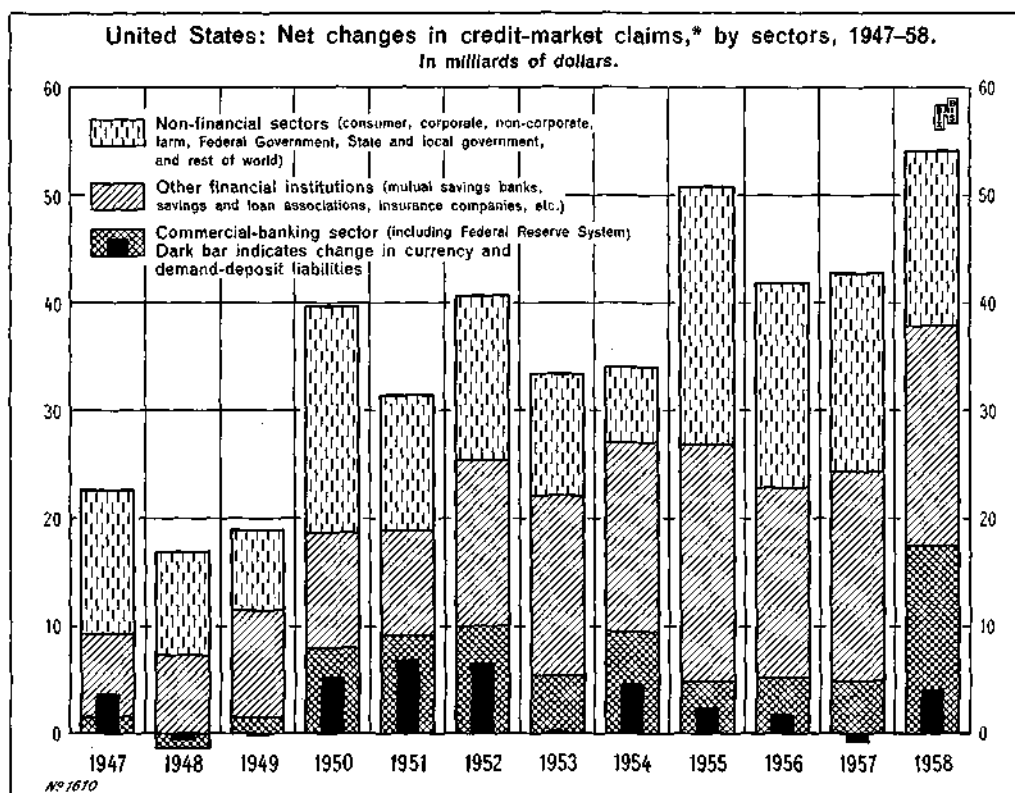
1 This heavy long-term borrowing was facilitated by the fact that the Treasury, in meeting its greatly increased credit needs, made only limited demands on the capital market in 1958. In the first half of the year the Treasury's position was seasonally strong and it undertook no net borrowing, but it did take advantage of the rising trend of bond prices by engaging in extensive funding operations. As all the afore-mentioned economic sectors, including some of the non-bank financial institutions, were reducing their holdings of government securities during this period, the new longer-term issues were taken up mainly by the commercial banks, whose potential demand for such issues had expanded rapidly owing to a rising trend of deposits, a net reduction in business loans outstanding and the measures taken by the Federal Reserve Board to supply the banking system with additional reserves. In the second half of the year, as recovery progressed and interest rates quickly rose to relatively high levels, the Treasury, whose borrowing needs were increasing steeply, confined itself to issuing short-term paper. While several considerations may have been responsible for this course of action — the weakness of the market after the middle of the year, the growing strength of demand from corporations and foreign institutions for short-term paper, and the desire of the government not to impede economic recovery — its effect was to give other sectors and foreign borrowers readier access to the capital market. In the early months of 1959, as the yield on

long-term government securities increased further, the Treasury continued to raise funds mainly at short term; and this heavy recourse to short-term borrowing has been one of the reasons which has led the monetary authorities to raise their discount rate in several stages, to reach $3\frac{1}{2}$ per cent. by 29th May 1959. During this period an old and hitherto unimportant Federal law limiting the rate of interest payable on government bonds to $4\frac{1}{4}$ per cent. began to intrude as a possible obstacle to longer-term borrowing.

The remarkably large expansion in the earning assets of the commercial banks in 1958, together with the various Federal Reserve credit measures which contributed to this result, have been described in Chapter I. In addition, account must be taken of the credit transactions of the various other financial institutions, which as a group increased their holdings of credit-market claims in 1958 by over \$20 milliard, or slightly more than in 1957. In the insurance sector, where the accrual of net new investible funds showed little change compared with 1957, investment policy during the year clearly favoured mortgages and corporate and municipal securities as against government securities. Time deposits with mutual savings banks and savings shares with savings and loan associations showed a combined rise of \$8.6 milliard in 1958, compared with one of \$6.9 milliard in 1957, and this was reflected in a substantial increase in mortgage lending. In contrast, the earning assets of finance companies declined, owing to net repayments of consumer credit and other loans outstanding. Finally, investment companies issued a substantially greater volume of securities in 1958, using the proceeds largely to increase their holdings of industrial securities.

The annual new lending of the financial institutions other than the commercial banks, as measured by their net acquisition of credit-market claims, increased significantly over the years 1947-58, displaying at the same time a relatively high degree of cyclical stability. The chief reason, of course, is that the investible funds received by these institutions consist largely of stable savings flows of a contractual or longer-term nature (e.g. life assurance savings, pension funds, savings and loan shares).

Credit transactions which take place outside the financial sectors are, as may be seen from the graph on the next page, both quantitatively important and cyclically variable in amount. In 1958, for instance, the net acquisition of credit-market claims by the various non-financial sectors (e.g. security purchases by individuals and business firms, consumer and trade credit extended by the business sector) is estimated to have totalled \$16.1 milliard, compared with \$18.4 milliard in 1957. This decline was not so large as is usual in a recession year, the reason being that there was an exceptional increase in trade credit extended by the corporate sector, which in turn seems to have been connected with a continuation of rather high bank-lending charges during the recession phase. On the other hand, as explained earlier, the consumer sector's acquisition of credit-market claims dropped off sharply, owing mainly to net sales of government bonds, while State and local governments and foreign institutions appear also to have reduced their net purchases of government securities, mostly of Treasury bills.



* As defined in footnote 3 to the table on page 67.

Whereas the total net increase in credit-market claims held by the three broad sectors shown in the graph amounted to an estimated \$54 billion in 1958, only a very small part of this expansion can be said to have had its direct counterpart in an increase in the money supply. This clearly exemplifies the importance, when examining relationships between credit, spending and economic activity, of having as complete a view as possible of total credit formation. In the long run, for instance, the rate at which the money supply must expand, as one condition of economic growth with stable prices, will depend on the extent to which those who acquire financial claims wish to hold these claims in non-monetary form, and this is partly a matter of the structure and level of interest rates, general expectations concerning the trend of economic growth and the development and relative attractiveness of different kinds of financial-investment media (e.g. pension plans, insurance schemes, investment trusts).

Over shorter periods of time the attractiveness of money, as an asset to hold, increases in relation to alternative financial assets during periods of recession, when uncertainty is growing and interest rates are falling, while the opposite is the case in periods of expansion. In the course of the business cycle, therefore, annual changes in total credit, although variable, tend to be less great than changes in the money supply; and accordingly swings in the "income velocity" of money usually reflect, for the most part, changes in the relative importance of non-bank credit. It will be seen from

the graph that since 1952, which was the last year of the large "Korea-induced" expansion of the money supply and marked the beginning of a period of more flexible interest rates (following the Treasury/Federal Reserve Board "accord" of 1951), the net acquisition of credit-market claims by the commercial banks has followed a clear cyclical pattern. Owing to the Federal Reserve Board's actions to restrain bank credit, combined with the declining relative attractiveness for the public of holding bank deposits, the net increase in the commercial banks' credit-market claims in each of the periods of high business activity — 1953 and 1955-57 — was only about \$5.0 milliard and the money supply either increased only slightly or contracted. At the same time, net credit granted outside the commercial-banking system was relatively large. In the recession years 1954 and 1958, on the other hand, as a result of Federal Reserve measures taken to expand the credit base, which led to an exceptional rise in the commercial banks' earning assets and a replenishment of their government-security portfolios, the banks not only regained ground lost to other types of financial institutions during the preceding periods of expansion but also acquired a liquidity basis for making a gradual shift to more remunerative earning assets during a period of economic upswing.

The growth in the relative importance of non-bank lending during years of high economic activity is the result of the normal responses of the economy to the restraints imposed on bank credit and does not mean that the authorities are not able to bring about a desired reduction or limitation in total credit-granting in all its forms. On the contrary, the money supply remains a strategic element in the financial assets of all economic units and the effects of its manipulation penetrate to every corner of the credit-creating mechanism.

In the United Kingdom, recessionary tendencies in 1958 were relatively mild, expressing themselves in a slight weakening of exports, a levelling-off of fixed capital investment and a much reduced rate of inventory accumulation. Credit measures adopted during the year and early in 1959 consisted primarily of a relaxation of stringent selective measures introduced earlier. In the field of debt management the overriding objectives of policy were the restoration and maintenance of conditions in the gilt-edged market which would permit the satisfaction of government requirements both for refunding and for a reasonable quantity of new borrowing in that market; the pursuit of these objectives in 1958 implied, at least until the autumn, a large amount of funding in order to prevent too sharp an upward movement in government-security prices.

In 1958 the financial surplus of the company sector (including financial companies) rose to £405 million from £230 million in the preceding year (see table on page 43). The increase was actually greater than these figures suggest, since they include borrowing from tax reserves, which changed from £145 million in 1957 to a negative figure of £65 million in 1958. It is significant, moreover, that the increase in the sector's financial surplus had only limited adverse repercussions, through a reduction in company investment expenditure,

on private incomes and the government's budget position. The change occurred mainly in relation to the rest of the world, having been attributable partly to a decline in the prices of raw-material imports, which helped to sustain company income, and partly to a decrease in the volume of such imports consequent upon a fall in the rate of investment in inventories.

In addition to the foregoing factors, which bear essentially on the availability and use of internal funds, account must be taken of the sector's borrowing and lending activities. Despite the curbing of investment in inventories in 1958, bank advances increased by £366 million (the greater part presumably being accounted for by companies). This exceptionally large rise was closely linked with the removal in July 1958 of the restriction on bank lending, which had been tightened up in September 1957. Moreover, in assessing the strong demand for bank advances in 1958, it is pertinent to observe that the level of outstanding advances at the end of 1957 was actually lower than that at the end of 1954. Besides permitting pent-up demands for credit to be satisfied, the removal of the restriction caused some borrowing to shift back to more normal channels and was in turn accompanied by some repayment of loans earlier obtained, probably on more stringent terms, from non-bank institutional and private sources. In addition, new capital issues by domestic companies in 1958 totalled £180 million — a substantial amount, even though much below the unusually high figure of £295 million in 1957. The net increase in the availability of internal funds, together with the borrowed resources mentioned above, suggests a large accumulation of other financial assets or a reduction in other liabilities, but it is not possible to trace these changes with any precision. However, indications are that, while trade-credit claims declined in consequence of the easing of bank credit, cash assets were built up, hire-purchase credit claims were increased and some additions were perhaps made to net holdings of short-term government securities, including tax reserve certificates.

At £625 million, the personal sector's financial surplus, though a shade smaller than in 1957, was still very considerably above the figure for most earlier years. One remarkable development in 1958, attributable partly to the introduction of a more favourable rate of interest for National Defence bonds and an increase in the maximum permissible individual holding of the current issue of National Savings certificates, was an increase in outstanding National Savings media of almost £200 million, compared with a rise of only £70 million in 1957. Perhaps equally significant, on the borrowing side, was a rise in hire-purchase debt of almost £100 million, about half as much again as in 1957, most of the increase having occurred towards the end of the year after the existing restrictions on hire-purchase credit had been first relaxed in September and then removed altogether in October. As in preceding years, life assurance and pension funds continued to account for the bulk of personal savings in financial form, these funds having increased by an estimated £600 million in 1958. In addition, shares and deposits in building societies rose by approximately £175 million, while net new advances granted by these societies increased by over £150 million.

Finally, the rise in personal bank deposits is estimated to have exceeded bank advances to individuals by about £40 million; this margin was substantially smaller than in 1957, owing partly to an increase in bank lending to finance personal expenditure and partly to the increase in funds invested in National Savings media.

The financial surplus of the central government, which had risen from £225 million in 1956 to £410 million in 1957, grew a little larger still, to £420 million, in 1958. As thus calculated, the financial surplus represents the difference between the central government's own saving and its real capital investment reckoned on a calendar year basis in accordance with national income accounting concepts. Taking into account net repayments by local authorities, this sum fell short by over £450 million of the amount needed to finance the central government's loans to the nationalised industries, its loans and transfers to overseas governments and a large increase in the Exchange Equalisation Account's holdings of gold and foreign exchange.

In the financial year ended 31st March 1959 the net new borrowing requirements of the central government are estimated to have amounted to some £435 million. Of this total, only £182 million was accounted for by the "overall" budget deficit, the remainder being the cost of external items: £132 million was needed to finance the Exchange Equalisation Account's increased holdings of gold and foreign exchange, while an additional £121 million was used for making net repayments of external debt.

On the financing side, allowance must first be made for certain receipts accruing outside the budget proper. These stem in the main from the fact that certain budget outlays are actually received by the government itself, either permanently or temporarily. Under this heading come, for instance: the income of the Issue Department of the Bank of England; any unspent balances held by government departments (partly used to make Ways and Means advances); sinking-fund payments, which, until they are spent in the purchase of stock in the market, represent a budgetary debit balanced by a non-budgetary internal receipt; and the net income, if any, of the National Insurance funds.

On balance, it appears that the afore-mentioned internal sources of extra-budgetary funds may have reduced other borrowing requirements to a figure of the order of £250 million during the financial year 1958-59. This was more than covered by an increase of £306 million in National Savings, one of £44 million in tax reserve certificates and one of £50 million in the fiduciary issue. The excess of some £150 million, allowance being made for the approximate and uncertain nature of the foregoing estimate of extra-budgetary receipts, is indicative of the extent to which marketable government debt in the hands of the public fell during the financial year.

No exact picture of the composition of the above decline in marketable debt held by the public can be obtained from published sources. In his budget speech, however, the Chancellor, after referring to the fact that the floating debt had increased by £391 million during the financial year, said

that this rise "was not associated with a rise in the floating debt held by the banks and by the market generally. The rise was in the holdings of the Departments. On the other hand, holdings of floating debt other than by the Departments decreased during the year." From figures published by the clearing banks it is known that their Treasury bill holdings declined between mid-March 1958 and mid-March 1959 by £205 million. Presumably the discount market's bill portfolio also declined, as bill rates were falling and short-term bond prices moving upwards during most of this period, and one would expect the same to be true to some extent of other domestic holdings. On the other hand, during the financial year sterling balances of non-sterling-area countries increased by £43 million, while those of sterling-area countries rose by £46 million. The non-sterling area's holdings of sterling, a large proportion of which consists of non-official funds, are probably kept in more liquid form than are those of the sterling area, which represent mainly official funds (i.e. the holdings of sterling-area central banks, currency boards and other official bodies). It is therefore unlikely that much of the extra sterling of non-sterling-area countries was invested in government stock; in addition, some sterling-area official holders may have preferred to have more liquidity than usual earlier in the period when their assets were tending to dwindle.

It would appear, therefore, that nearly all of the decline in government marketable debt may have been due to a fall in Treasury bills held in the market. If so, it would follow that the total of the public's holdings of government stock did not change much. The clearing banks' investments in government bonds fell, from March 1958 to March 1959, by some £200 million, and sterling-area countries probably ran down their holdings too. On the other hand, the discount houses probably increased their short-term bond portfolios. Even more important, given the further growth in insurance and pension fund savings and the authorities' vigorous funding policy during much of the financial year, substantial quantities of government stock must have been taken up by non-bank financial institutions and other private investors.

Net sales of government stock held by government departments appear to have continued over the period up to the autumn of 1958, the clearing banks alone having increased their "investments" by about £109 million during the six-month period ending in September. These sales had the effect, at one and the same time, of giving the monetary authorities better control over the liquidity of the economy and limiting the concurrent decline in long-term interest rates. In this connection, when £676 million's worth of government stock matured in June 1958, £650 million was converted through the issue of two new stocks. The average monthly yield on 2½ per cent. Consols fell from 5.41 per cent. in December 1957 to 4.96 per cent. in April 1958, and to 4.77 per cent. in October.

In the succeeding months, which saw signs of recovery in the United Kingdom, the yield on Consols at first increased slightly but then fell again to a low of 4.72 per cent. in February, rising thereafter to an average of 4.83 per cent. in April 1959. Debt-management policy in the gilt-edged market,

governed by the objectives mentioned on page 71, appears to have been adjusted during this period to meet the heavy sales of government stock by the banks, which began in November and continued during the remainder of the fiscal year. According to the Exchequer accounts (which, however, give no insight into the securities transactions of the public departments), the amount of Treasury bills redeemed in the first quarter of 1959, when the accounts are normally heavily in surplus, was much less than in the same quarter of 1958, when net official sales of stock appear to have been running at a high level. It may be added that, when £592 million's worth of stock matured in January 1959, holders were offered in exchange a conversion stock (1964) limited to £250 million.

The fall in short-term interest yields was more sustained and very much sharper than the decline in longer-term yields. Commencing with an adjustment from 7 per cent. to 6 per cent. in mid-March 1958, Bank rate was lowered in four further stages to 4 per cent. in mid-November, where it thereafter remained. The first three reductions in Bank rate, ending with that from 5½ to 5 per cent. in June, did not, it was officially stated, constitute any reversal of the general direction of monetary policy; instead, they represented an appropriate downward adjustment of the rate from the exceptionally high level that had been required to meet the special circumstances of the previous autumn. In contrast, the next reduction, from 5 to 4½ per cent. in August, was officially stated to be in line with the credit relaxations announced in July (see below) and to be justified both by the internal economic situation and by the continuing strength of sterling. The last reduction, to 4 per cent., which followed the suspension of control over consumer instalment credit at the end of October, was similarly motivated. The Treasury bill tender rate dropped from a monthly average of 6.6 per cent. in October 1957 to 3.2 per cent. in December 1958 and a low of 3.1 per cent. in February, from which point it moved upward again, to reach an average of 3.3 per cent. in May 1959.

In July 1958, in addition to the removal of the ceiling on bank advances, the Capital Issues Committee was instructed to take a more lenient attitude towards applications for new issues. Furthermore, a new scheme of "special deposits" was announced (as a stop-gap measure pending the conclusion of the Radcliffe Committee's deliberations) for potential future application in controlling excessive bank liquidity without the disadvantages associated with the use, however effective, of "requests" to the banks to limit advances. Against the background of comparatively high long-term rates, the removal of other forms of qualitative controls continued in subsequent months: restrictions on hire-purchase credit had been removed by October 1958, and in February 1959 new capital issues were freed almost entirely from C.I.C. control. Moreover, after July 1958 the banks themselves took positive steps to stimulate the use of their services by offering new personal-loan and current-account facilities.

The influence of certain of these changes may be seen in the monthly returns of the London clearing banks, which in the table on the next page are

shown on a financial year basis. The sharp increase in advances, which began in the second half of 1958 after the removal of the fixed ceiling, continued in the first quarter of 1959, giving for the financial year 1958-59 a total rise of £525 million, as against a decline of £60 million in 1957-58. This increase was accompanied by a decline of £140 million in the clearing banks' total holdings of Treasury bills and money at call and a fall of £165 million in their investments (a small rise in trade investments having been offset by a larger decline in holdings of government securities). Net deposit liabilities, therefore, rose by only £240 million. The increase in advances since the middle of 1958 appears to have been fairly evenly distributed among the various classes of borrowers — industry, trade, public utilities and agriculture — but was rather more marked in the case of retail trade, hire-purchase finance companies and "personal and professional" borrowers, the groups previously subject to the greatest credit restraint.

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								
1955-56	- 311	- 11	+ 97	- 288	- 202	- 117	+ 7	- 110
1956-57	+ 68	+ 19	- 31	+ 0	- 12	+ 70	+ 22	+ 92
1957-58	+ 190	- 8	+ 167	+ 101	+ 260	- 59	- 21	- 80
1958-59	+ 242	+ 64	- 205	- 166	- 308	+ 525	+ 3	+ 528
Outstanding at mid-March 1959	6,328	502	877	1,928	3,307	2,456	127	2,583

* Including advances to nationalised industries.

In the calendar year 1958 the average total money supply (currency in circulation plus net sight deposits with the clearing banks) declined by £80 million to £5,440 million. The gross national product, on the other hand, increased by £890 million, and hence the total money supply, as a percentage of the gross national product, dropped from 25.2 to 23.9 per cent. If, on the other hand, the average total money supply is defined to include 7 and 14-day time deposits, which increased by £336 million in 1958, these percentages become 36.5 and 36.2 respectively. This very small change, which may be alternatively expressed as an increase in the income velocity of money, represented a distinct slowing-down in the uninterrupted decline in monetary liquidity that has been in progress since the end of the war. Moreover, when considering changes in private liquidity it should be borne in mind that, while the money supply (including 7 and 14-day time deposits) rose slightly less than total expenditure and the banks became less liquid, private individuals, business firms and the non-bank financial institutions did,

in the broadest sense, apparently improve their positions, whether by increasing their net (non-monetary) financial assets, by reducing their net financial liabilities or by making use of more normal sources of finance of which they had been deprived during the period of credit restriction. Even in this sense, however, the liquidity of the private economy was kept in check by careful monetary and fiscal management. The Treasury not only reduced its "overall" deficit but, aided by the relative stability of the price level, was able to borrow longer-term funds outside the banking system in excess of the total amount used to meet the budget deficit, repay external debt and finance the rise in the exchange reserves. This change was accompanied by a reduction in short-term debt held by the market and a fall in the total of gilt-edged securities held by the banks. These financial developments, when considered in the light of the country's reserve of industrial capacity and improved external position, laid the foundation for the policy which inspired the budget of April 1959.

In France the trend of liquidity formation in 1958 was distinctly different from that in most other countries of western Europe and North America. The liquidity position of the enterprise sector came under pressure partly as a result of the improvement in the central government's budget position, which stemmed the creation of money by way of direct advances from the central bank, and partly because of a notable strengthening of credit restraints, which prevented the sector's growing financial deficit from being financed by means of additional credit. As may be seen from the table on the next page, which shows net changes in financial assets and liabilities as estimated by the Department of Economic and Financial Research of the Ministry of Finance, identifiable net borrowing from other sectors totalled just over Fr.fcs. 1,300 milliard in 1958, or about the same amount as in 1957. Owing to the necessity of covering the larger financial deficit, therefore, the additions that could be made to liquid assets were much smaller in 1958 than in 1957. The sector's holdings of money increased by only Fr.fcs. 50 milliard, as against a rise of Fr.fcs. 280 milliard in 1957, while its net acquisition of secondary liquid assets dropped to Fr.fcs. 210 milliard in 1958 from Fr.fcs. 265 milliard in the preceding year.

New bank credit (including a substantial amount of direct Treasury advances to enterprises) declined from Fr.fcs. 635 milliard in 1957 to Fr.fcs. 545 milliard in 1958. This change reflects mainly a much smaller increase in short-term loans but is also partly due to a slackening in the growth in medium-term credit, both of these types of lending having been restricted in 1958 by credit ceilings imposed early in the year and only slightly eased in the second half. Treasury advances to industry (including nationalised enterprises) appear to have increased somewhat from 1957 to 1958.

As regards long-term funds, the enterprise sector obtained in 1958, by means of its net security sales to other sectors, a net sum of Fr.fcs. 300 milliard, or slightly more than in 1957. Long-term (non-negotiable) loans showed a more substantial increase, rising from Fr.fcs. 385 milliard in 1957 to

Fr.fcs. 445 milliard in 1958. Within this category, loans originating from the Fund for Economic and Social Development, whether made directly by the Treasury or channelled through various of the specialised public credit institutions, are estimated to have increased moderately in 1958. There was also a rise in long-term loans made by the specialised institutions on their own account, one reason for this being that the Caisse des Dépôts et Consignations (in contrast to the commercial banks, whose time-deposit liabilities rose much less in 1958 than in 1957) acquired additional longer-term resources as a result of the increase in savings deposits in that year.

The household sector's financial surplus was estimated at Fr.fcs. 465 milliard in 1958, or slightly less than in 1957. Yet, as may be seen from the

France: Changes in financial assets and liabilities, by sectors, 1957-58.¹

Items	Years	House-	Enter-	Public	Financial	Rest
		holds	prises	authori- ties	insti- tutions ²	of the world
round figures, in milliards of French francs						
Financial surplus or deficit (—)	1957	490	— 660	— 600	245	— 525 ³
	1958	465	— 1,095	— 35	270	— 390 ³
Corresponding changes in financial assets (increase +) and liabilities (increase —)						
Money (cash and sight deposits) . . .	1957	280	280	— 75	— 485 ⁴	—
	1958	330	50	— 100 ⁵	— 280 ⁵	—
Other short and medium-term claims (including savings deposits) on the Treasury and the financial institutions	1957	280	265	— 185	— 465 ⁴	— 105
	1958	355	210	— 160	— 440	— 55
Securities	1957	305	— 295	— 10	15	25
	1958	365	— 300	— 140	75	—
Bank credits (short and medium-term) and Treasury advances	1957	— 125	— 635	175	610	25
	1958	— 115	— 545	210	450	—
Long-term loans (non-negotiable) . . .	1957	— 35	— 385	75	430	85
	1958	— 95	— 445	80	495	35
Net short-term transactions between the Treasury and the financial institutions	1957			— 525	525	
	1958			45	— 45	
Credit and loans from and to foreign countries and the overseas territories	1957	—	— 15	— 10	— 130	— 155 ⁶
	1958	—	— 5	25	— 245	— 225 ⁶
Gold and foreign exchange	1957	—	—	—	— 255	— 255 ⁶
	1958	— 25	— 10	—	250	215 ⁶
Statistical adjustment ⁷	1957	— 215	115	— 35	—	— 135
	1958	— 345	— 55	35	5	— 360

¹ Preliminary and provisional estimates by the Department of Economic and Financial Research of the Ministry of Finance for the 1958 national accounts. ² Including, in addition to the banks, the Bank of France, the public credit institutions and the insurance companies. ³ 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. ⁴ In 1957, the increase in monetary liabilities is understated, and the increase in short and medium-term claims correspondingly overstated, because of a technical shift of over Fr.fcs. 100 milliard from sight to time deposits resulting from a stricter enforcement of regulations applying to creditor interest rates. ⁵ More precise figures which have become available since these provisional estimates were made indicate that the money supply (cash and sight deposits) increased in 1958 by about Fr.fcs. 450 milliard instead of Fr.fcs. 380 milliard. ⁶ See also Chapters V and VI. ⁷ Including unidentified movements of funds, which consist mainly of funds repatriated from North Africa to the metropolitan area.

table, identifiable additions to the sector's net financial assets came to Fr.fcs. 1,050 milliard in 1958, as against Fr.fcs. 865 milliard in 1957. This means that, as in previous years, there was a large source of unidentified funds (Fr.fcs. 345 milliard in 1958, compared with Fr.fcs. 215 milliard in 1957), which may have consisted mainly of funds, both current and capital, repatriated from North Africa. The increase in financial assets was about equally divided between cash balances, secondary liquid assets and securities. Within the category of secondary liquid assets, which showed the largest rise, there was a marked increase in deposits with the savings banks, these having risen by almost Fr.fcs. 300 million, or more than two-thirds as much again as in 1957. Moreover, largely owing to the success of the 3½ per cent. gold-clause loan issue during the summer (see below), the household sector's net purchases of securities increased appreciably.

Bank credit to the household sector, consisting mostly of medium-term house-building credits, decreased from Fr.fcs. 125 milliard in 1957 to Fr.fcs. 115 milliard in 1958. At the same time the share of such credit provided by the banks (and usually rediscounted with the central bank) declined substantially, while that contributed by the special credit institutions (mainly the *Crédit Foncier*), using for the most part savings funds, increased correspondingly. Furthermore, if this lending category is examined in conjunction with receipts of funds from "long-term (non-negotiable) loans", which include that part of medium-term housing loans which is currently being consolidated on a long-term basis, it would appear that the total of construction credits increased slightly from 1957 to 1958. The consolidations were carried out largely by the new "*Caisse de consolidation et de mobilisation des crédits à moyen terme*", which had been established in 1958 to help reduce the amount of central-bank refinancing of medium-term credits and whose resources consisted primarily of budget funds and counterpart funds from France's 1958 drawing from the International Monetary Fund.

Turning to the public sector, it was remarkable that in 1958 this sector not only reduced its previously large financial deficit to very small proportions but also obtained substantially more funds from the market instead of from the banking system. As may be seen from the table, the new funds obtained by means of security issues (net of total amortisation payments on all longer-term debts) came to Fr.fcs. 140 milliard in 1958, as against only Fr.fcs. 10 milliard in 1957. The principal factor contributing to this result was the highly successful 3½ per cent. gold-clause loan issue (open for subscription in late June and early July), which brought in Fr.fcs. 294 milliard in new money and was accompanied by the sale to the Stabilisation Fund of 150 tons of gold, equivalent in value to \$170 million. As regards sources of short-term funds, central-bank advances to the Treasury, which in 1957 had increased by Fr.fcs. 480 milliard, were resorted to in 1958 only for the purpose of meeting temporary seasonal needs. Treasury bills sold to the public ("*bons sur formules*") changed only slightly in 1958 in comparison with 1957, but there was a rather substantial rise in the amount of funds available as the result of a growth in postal cheque deposits.

In view of the very considerable improvement in the central government's budget position, the Treasury's net borrowings were used primarily to finance the government's granting of credit to the economy. Direct Treasury advances to the private sector increased somewhat in comparison with 1957, and a certain amount of funds were absorbed by net short-term transactions with the specialised financial institutions and overseas lending. As regards the category "long-term (non-negotiable) loans", the figure of Fr.fcs. 80 milliard for 1958 is the net result of two large and partly offsetting flows, one being the supplying of Treasury funds to the economy under the lending programme of the Fund for Economic and Social Development and the other being the borrowing of funds by the public sector (namely, the local authorities) from the financial-institutions sector (i.e. from the Caisse des Dépôts et Consignations).

The surplus of the financial institutions, besides reflecting their retained profits, includes the increase in the reserves of the insurance companies, which amounted to Fr.fcs. 140 milliard in 1958, compared with Fr.fcs. 125 milliard in 1957. Most of the purely borrowing and lending activities of the financial sector have already been discussed in connection with the transactions of the other sectors. It should be added, however, that the increase in France's gold and foreign exchange reserves was closely associated with an improvement in its current-account balance of payments with foreign countries (excluding the overseas territories), sales of privately-held gold to the Stabilisation Fund, capital repatriation and the utilisation of various external credits. Thus the country's financial deficit vis-à-vis the rest of the world was in 1958, to a much larger extent than before, ascribable to its expenditure in and transfers to the overseas territories, particularly Algeria, but this deficit appears to have been largely compensated by a return flow of unidentified funds to the metropolitan area.

The credit measures that helped to improve France's internal financial situation in 1958, thereby laying a firmer foundation for the maintenance of the new exchange rate adopted in December, were introduced mostly in 1957 and early in 1958. These measures, which were described in detail in the Bank's Twenty-eighth Annual Report (pages 77-78), included the raising of the central bank's normal and penalty discount rates, a lowering of rediscount ceilings, the imposition of ceilings on short and medium-term bank credit, the reintroduction of controls on large capital issues and a tightening of the conditions governing housing credit, loans to nationalised industries and consumer instalment credit. In the summer of 1958, by which time these measures had proved very effective, but when, in addition, certain domestic and external influences had begun to have a deflationary impact, credit policy was moderated somewhat; the restrictions on bank credit, together with the regulations governing consumer instalment credit, were slightly relaxed, and in October the discount rate was lowered from 5 to 4½ per cent.

Early in 1959, as France's foreign exchange reserves were increasing rapidly and domestic prices showed an encouraging degree of stability, credit restraints were further eased. In February the ceilings imposed a year earlier

on short and medium-term bank credits were removed and the discount rate was reduced from $4\frac{1}{2}$ to $4\frac{1}{4}$ per cent. Moreover, as a result of the large inflow of exchange reserves, the banks' liquid funds quickly increased, the additional resources being used partly to add to their holdings of Treasury bills but mainly to reduce their indebtedness vis-à-vis the Bank of France. Penalty rediscount rates, which had also been gradually adjusted downward, lost some of their importance as bank liquidity rose. These rates were again reduced in April, when the discount rate was further cut to 4 per cent. The object of the monetary authorities has been, in so far as this could be accomplished without impairing the beneficial effects of the 1958 stabilisation programme, to continue to relax credit gradually in order to promote investment and stimulate economic activity in general.

In Germany financial developments in 1958 bore a close outward resemblance to those in a number of other western European countries, but the reasons underlying them were more deep-rooted and go back over a longer period of time. Although business activity was slowly rising during most of the year, the gap between gross national saving and domestic investment, which is partly structural in character and has repeatedly led to large current-account balance-of-payments surpluses, became slightly wider in 1958. For these reasons, the tendencies towards growing domestic liquidity, associated with the inflow of foreign exchange, have also had to be regarded as partly structural in origin. In this connection, monetary policy has for a long time been oriented towards offsetting the excessive liquidity effects on the banking system of the exchange inflow, thereby helping to make the downward trend in interest rates a gradual and orderly one. It has thus contributed towards cementing a firmer basis for the expectation that a relatively low structure of interest rates, conducive to the development of a broader domestic capital market and more in keeping with Germany's strong external position, will become a lasting feature of the economy.

Viewed in terms of the liquidity effects on the financial system, the Bundesbank's net purchases of foreign exchange from the credit institutions came to DM 5.8 milliard in 1958, compared with DM 7.9 milliard in 1957. This expansion in liquidity was offset in part by an outflow of currency into circulation (DM 1.6 milliard). A further reduction (DM 1.9 milliard) stemmed from an increase in the central-bank deposits of non-banks, which mainly reflected a rise in the deposits of the Federal Government resulting from its "domestic" cash-budget surplus of DM 2.0 milliard. However, the Federal Government drew from these deposits an even greater amount in order to acquire the exchange needed to make various types of current and capital payments abroad (e.g. armaments procurements, payments to the International Bank for Reconstruction and Development and the International Monetary Fund, and debt service), the total of which came to DM 2.8 milliard in 1958, compared with DM 3.1 milliard in 1957.

The net effect of the above transactions was an increase of DM 2.2 milliard in the liquidity of the credit institutions. Of this total, DM 1.0 milliard

was absorbed by the growth in obligatory reserves, DM 0.4 milliard by the Bundesbank's open-market security sales and DM 0.7 milliard through the repayment of debt to the central bank. The persistent growth in the liquidity

Germany: Changes in financial assets and liabilities, by sectors, 1956-58.

Items	Years	House-	Enter-	Public	Rest of	
		holds ¹	prises ¹	authorities	the world ²	
in milliards of Deutsche Mark						
Financial surplus or deficit (-)	1956	7.3	- 13.8	10.8	4.3 ⁴	
	1957	11.3	- 14.2	8.5	5.5 ⁴	
	1958	13.3	- 14.7 ³	7.6 ³	6.2 ⁴	
Corresponding changes in financial assets (increase +) and liabilities (increase -)						
Currency and sight deposits	1956	0.9	1.2	1.3	- 0.5	
	1957	1.3	1.6	- 2.2	- 0.2	
	1958	1.5	2.9	0.2	0.4	
Time deposits, savings deposits and other medium and long-term funds	1956	2.9	1.9	4.5	- 0.1	
	1957	4.8	3.2	4.3	0.1	
	1958	5.9	1.6	2.5	-	
Bank credit						
	Short-term	1956	- 0.2	- 1.4	- 0.1	- 0.1
		1957	- 0.1	- 2.2	- 0.4	- 0.1
1958		- 0.2	- 0.1	- 0.2	0.6	
Medium and long-term	1956	-	- 7.4	- 1.3	-	
	1957	-	- 6.0	- 1.2	-	
	1958	-	- 7.9	- 2.0	0.4	
Net purchases (+) or sales (-) of securities	1956	0.6	- 1.0	1.7	0.2	
	1957	1.4	- 1.7	1.0	0.2	
	1958	1.7	- 3.1	- 0.1	-	
Net increase in claims on (+) or liabilities towards (-)						
	Building societies	1956	2.0	- 1.9	-	-
		1957	2.6	- 2.2	-	-
1958		3.1	- 2.5	-	-	
Insurance companies	1956	1.0	- 0.6	- 0.1	-	
	1957	1.3	- 0.5	- 0.1	-	
	1958	1.4	- 0.4	- 0.1	-	
Other domestic debtors (or lenders) . . .	1956	-	- 3.6	3.6	-	
	1957	-	- 4.8	4.8	-	
	1958	-	- 6.1 ³	6.1 ³	-	
Capital exports (+)	1956	-	0.3	0.8 ⁵	1.2	
	1957	-	0.8	1.8 ⁵	2.6	
	1958	-	1.3 ⁶	0.6 ⁵	1.9	
Capital imports (-)	1956	-	- 1.4 ⁶	0.3 ⁷	- 1.1	
	1957	-	- 2.5 ⁶	0.4 ⁷	- 2.2	
	1958	-	- 0.4	0.4 ⁷	0.1	
Gold and foreign exchange reserves	1956	-	-	-	4.7	
	1957	-	-	-	5.2	
	1958	-	-	-	2.8 ⁸	

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 Excluding the remission of debts of the Federal railway system (which is regarded as a part of the enterprise sector) by the Federal Government in the amount of DM 1,975 million. ⁴ Net foreign investment (i.e. balance of payments on current account). ⁵ Including advance payments for future armaments deliveries. ⁶ Including changes in the terms of payment. ⁷ Including repayments under the London Debt Agreement. ⁸ Gold and foreign assets of the Deutsche Bundesbank only.

Source: Preliminary estimates of the Deutsche Bundesbank; revised figures will be published in the Bundesbank's Monthly Report for June 1959.

of the credit institutions over the past few years is evidenced by the fact that they reduced their indebtedness to the central bank from DM 5.2 milliard at the end of March 1956 to only DM 960 million at the end of December 1958, while in the three-year period to December 1958 they increased their holdings of Treasury bills and non-interest-bearing Treasury bonds from DM 1.2 milliard to DM 6.2 milliard.

The household sector's financial surplus has almost doubled within the space of two years (see table). In relative terms its importance has increased even more, as there was an accompanying, though smaller, decline in the financial surplus of the public authorities. The increase in 1958 was reflected almost exclusively in a rise in claims of a longer-term character. Although the largest change was in time and savings deposits held with the credit institutions, net purchases of securities rose further, as did also claims on the building societies and insurance companies.

The financial deficit of the enterprise sector (which includes house-building) increased only slightly in 1958, but there was a marked shift, on the one hand, from short to long-term borrowing, and, on the other, towards keeping financial assets in more liquid form. The sector's net new borrowing from the banks, which was somewhat smaller than in 1957, consisted almost entirely of medium and longer-term credits, these having risen from DM 6.0 milliard in 1957 to DM 7.9 milliard in 1958. In 1958, it may be noted, a smaller proportion of these credits was based on the receipt by the credit institutions from the public authorities of deposits earmarked for lending for specified purposes (e.g. housing). However, concurrently with the decline in new public-authority longer-term deposits from DM 4.3 milliard in 1957 to DM 2.5 milliard in 1958, there was an increase in public-authority direct lending (or lending via institutions not counted as part of the banking system) from DM 4.8 milliard to DM 6.1 milliard. The enterprise sector's net sales of securities to other sectors increased substantially in 1958, rising to DM 3.1 milliard from DM 1.7 milliard in 1957. Owing to a further decline in their financial surpluses, purchases of these securities by the social security institutions dropped off sharply, while the security acquisitions of the household sector, though larger in absolute terms, declined in relative importance. The credit institutions and insurance companies, on the other hand, bought a considerably greater amount of enterprise securities than in the preceding year. As regards changes in liquid assets, approximately two-thirds of the enterprise sector's net increase in bank deposits took the form of currency and sight deposits, compared with only one-third in 1957.

In spite of the reduced inflow of foreign exchange in 1958, the average money supply expanded by DM 4.5 milliard, compared with an increase of DM 3.3 milliard in 1957, and rose from 16.7 to 17.8 per cent. of the gross national product. The larger increase in 1958 appears to have been due not so much to a change in the amount of bank credit granted to the private sector, whose demands for such credit have remained modest and relatively stable during the past three years, as to a higher rate of bank credit to the public authorities and a stronger liquidity preference on the part of enterprises.

The central bank's discount rate was reduced twice in 1958 and once more in January 1959, on each occasion in order to bring it more into line with prevailing rates in the market. At the time of the last reduction, to $2\frac{3}{4}$ per cent., the lowest discount rate in German central-banking history, the offering rate on Treasury bills was below $2\frac{1}{2}$ per cent., and this subsequently dropped further to 2 per cent. in April. The maximum lending rates of the credit institutions, which are directly linked to the discount rate but are considerably above it, have declined, and competition among the banks has increased the amount of borrowing at rates below the maxima. The interest return (capital-yield tax deducted) on long-term industrial bonds, which early in 1957 had been about $6\frac{1}{2}$ per cent., declined gradually throughout most of 1958 and stood at about 5 per cent. in the early months of 1959. The very extent to which interest rates have already fallen, however, has tended to increase resistance to further declines.

In Italy the financial surplus of the private sector is estimated to have risen to Lit. 725 milliard in 1958, compared with Lit. 370 milliard in 1957, while the financial deficit of the local authorities (including certain other public bodies) rose moderately to Lit. 190 milliard and that of the central government remained the same at Lit. 180 milliard. These changes, together with a continued inflow of capital from abroad, were associated with an exceptionally large expansion in the official gold and foreign exchange reserves, which, as a matter of policy, was permitted to have a much greater effect on bank liquidity than was the case in most other countries. As may be seen from the table, the increase in central-bank funds associated with the exchange inflow was offset in part by an outflow of

Italy: Central-bank transactions tending to increase (+) or reduce (—) the liquidity of the credit institutions.

Factors	Change during		
	1956	1957	1958
	in milliards of lire		
Operating transactions			
Note circulation (increase —)	— 147	— 95	— 147
Government accounts	+ 45	+ 8	— 4
Net foreign exchange purchases	+ 68	+ 196	+ 563
Total 1	— 34	+ 109	+ 432
Credit transactions			
Government securities ¹	+ 96	+ 80	— 37
Discounts and advances	+ 47	— 38	— 65
Total 2	+ 143	+ 42	— 102
Total 1 + 2	+ 109	+ 151	+ 330
Of which			
Changes in required reserves	+ 100	+ 108	+ 224
Changes in other reserves at the central bank ²	+ 9	+ 43	+ 106

¹ Securities owned by the Bank of Italy and reserve-requirement funds invested in government securities, both by the Bank of Italy and directly by banks. ² Including some funds of non-bank customers.

currency into circulation (Lit. 147 milliard) and by the banks' repayments of indebtedness to the Bank of Italy (Lit. 65 milliard). Moreover, the central bank's holdings of government securities, after having risen by Lit. 80 milliard in 1957, declined in 1958 by Lit. 37 milliard (this includes not only the Bank of Italy's own holdings but also such reserve-requirement funds as were invested in government securities, whether by the central bank or directly by the banks). As the net result of the above-described transactions, the amount of liquid funds available to the credit institutions went up by Lit. 330 milliard, or more than twice as much as in 1957, and only two-thirds of these funds were absorbed as obligatory reserves, the remainder being added to free reserves at the central bank.

For its part, the central government not only abstained from undertaking any funding operations but in fact added to liquidity creation by borrowing at short term to meet its credit requirements. Altogether, more than Lit. 345 milliard's worth of Treasury bills was bought by the commercial and savings banks and the banking associations; this sum was sufficient to cover the government sector's financial deficit and its capital payments abroad and to offset a sizable reduction in Treasury bill holdings by the public and on "central-bank" account.

The net flow of new financial funds — i.e. the increase in the money supply and in time and savings deposits, the rise in the technical reserves of the insurance institutions and in new funds invested on the capital market — amounted in 1958 to over Lit. 2,000 milliard, after having kept within the range of Lit. 1,350–1,550 milliard in the period 1952–57. The total deposit liabilities of the commercial and savings banks, together with their own resources, which had increased by Lit. 695 milliard in 1957, rose in 1958 by Lit. 1,170 milliard, of which only Lit. 380 milliard consisted of current-account liabilities. Since the demand for bank credit was relatively weak, total loans having increased by no more than Lit. 290 milliard compared with Lit. 425 milliard in 1957, the banks not only took in large amounts of Treasury bills but also purchased Lit. 105 milliard's worth of capital-market securities, or more than twice as much as in 1957. The increase in the technical reserves of the insurance institutions was only moderately larger in 1958 than in 1957, but postal savings deposits rose much more than in the previous year.

The net flow of funds to the capital market (including government bonds and Treasury bills purchased by the public, but not those bought by the credit and insurance institutions) increased from Lit. 470 milliard in 1957 to Lit. 660 milliard in 1958. In percentage terms, the largest increase in security purchases was that in the portfolios of the banking system and the insurance institutions, whose net acquisitions rose from Lit. 60 milliard in 1957 to Lit. 155 milliard in 1958, but the increase from Lit. 410 milliard to Lit. 505 milliard in the public's acquisitions was equally important in absolute terms. Net new issues of bonds and shares for the benefit of the private economy (i.e. issues by the special credit institutions, the E.N.I., the I.R.I.

and private industry) rose from Lit. 420 milliard in 1957 to Lit. 705 milliard in 1958, or by more than the amount of new funds coming on to the market. This large expansion was rendered possible partly because the Treasury did not make net sales of long-term securities to the public in 1958 as it had done in 1957 (Lit. 65 milliard) and partly because in 1958 the public reduced its holdings of Treasury bills by Lit. 35 milliard.

The financial policy adopted by the government in 1958, while implying greater risks in the event of a revival of inflation, may have had positive effects in other directions — by accentuating the downward pressure on long-term interest rates and by giving a stimulus to the banks to find outlets for their excess liquidity in the expansion of private lending rather than in investment in low-yielding Treasury bills. The yield on long-term government bonds, which had been just below $7\frac{1}{2}$ per cent. in September 1957, fell sharply during the early months of 1958 and, after an adjustment of the Bank of Italy's discount rate from 4 per cent. to $3\frac{1}{2}$ per cent. in June, continued to decline during the second half of the year, so that by April 1959 it was down to an average of 5.3 per cent.

In Belgium, as in many other countries, there was a large concurrent increase in gold and foreign exchange reserves and in domestic liquidity in 1958. However, the rather protracted decline in Belgian economic activity in 1957-58, which was partly due to a falling-off in the volume of exports, had strong secondary repercussions on the country's budget position. Owing to the effect of the decline in private incomes on tax revenues, together with a marked rise in government expenditure and transfer payments, the Treasury's financing requirements increased sharply. Altogether, the government's total direct debt expanded by B.fcs. 21.4 milliard (B.fcs. 4.6 milliard in 1957), of which B.fcs. 3.3 milliard represented an increase in short-term borrowing abroad.

As may be seen from the table, bank claims on the public sector increased by B.fcs. 8.5 milliard in 1958, but the monetary effects of this rise were offset by an approximately equal decline in bank claims on the private sector. Accordingly, the large expansion in the money supply and in time and savings deposits was about equal in magnitude to the rise in the gold and foreign exchange reserves. Of the total growth in bank claims on the public sector, B.fcs. 4.3 milliard reflected the net direct acquisition of new public-sector issues by the banking system (including the central bank). The remaining B.fcs. 4.1 milliard represented the purchase, either by the banks themselves or by the Fonds des Rentes using resources obtained from the banks, of public-sector securities (including those previously issued) offered on the open market. The diminution of B.fcs. 8.4 milliard in bank claims on the private sector was the net result of a sharp reduction in the total of central-bank discounts and advances (which declined from B.fcs. 13.4 milliard in December 1957 to B.fcs. 2.9 milliard a year later) and a rise in the amount of credits carried by the banks.

Belgium: Formation of the money supply.*

Items	1955	1956	1957	1958	Outstanding at the end of 1958
	in milliards of Belgian francs				
Changes in the money supply					
Currency	+ 4.0	+ 3.7	+ 1.1	+ 4.8	120.3
Demand deposits	+ 4.9	+ 2.1	- 1.4	+ 6.7	89.2
Total	+ 8.9	+ 5.8	- 0.3	+ 11.5	209.5
Changes in corresponding items					
Bank claims on the private economy	+ 2.7	+ 4.6	+ 3.3	- 8.4	43.9
the public sector . .	+ 4.1	+ 3.0	- 3.2	+ 8.5	136.3
Total bank claims . . .	+ 6.8	+ 7.6	+ 0.1	+ 0.1	180.2
Gold and foreign exchange (net) . .	+ 6.4	- 0.7	+ 1.9	+ 15.8	71.7
Other items	- 0.9	- 0.2	+ 0.3	+ 1.9	3.1
Total	+ 12.3	+ 6.7	+ 2.3	+ 17.8	255.0
Increase (-) in time and savings deposits, etc.	- 3.4	- 0.9	- 2.6	- 6.3	- 45.5
Grand total . . .	+ 8.9	+ 5.8	- 0.3	+ 11.5	209.5

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

Net issues of bonds and shares by Belgian industrial and commercial companies declined from B.fcs. 7.4 milliard in 1957 to B.fcs. 5.4 milliard in 1958, and there appears to have been a sharp decline of about B.fcs. 1.0 milliard in the issues of Congolese companies. The amount of mortgages registered during the year came to B.fcs. 21.2 milliard, which was slightly below the 1957 figure. The capital market was therefore dominated in 1958 by the issues of the central government, other public authorities and semi-public institutions, whose net issues of medium and long-term securities came to B.fcs. 21.2 milliard, compared with B.fcs. 16.9 milliard in 1957. Among the largest of these issues was that of B.fcs. 7.5 milliard's worth of Treasury certificates (with a currency period of six years and three months and priced to yield 6.04 per cent.) in January 1958 and the ten-year state loan of B.fcs. 10.7 milliard (yielding 5.13 per cent.) in September. In addition to the acquisition of public securities by the monetary institutions, described above, the private savings banks and the Caisse Générale d'Épargne, whose deposits increased substantially in 1958, purchased these securities in large quantities, but there was still an appreciable amount that was taken up on the capital market by other institutions and the public.

Interest rates showed a declining trend throughout 1958. The rates for day-to-day money fell from 2.25 per cent. in December 1957 to 1.10 per cent. a year later, and dropped still further in the first quarter of 1959. The National Bank's discount rate was reduced in four stages from 4½ to 3½ per cent. in 1958 and again to 3¼ per cent. in January 1959. Longer-term interest rates, helped downward by the open-market security purchases of the Fonds des Rentes, declined gradually during the year, but the

movement was restrained by the series of public-sector issues. The yield on five to twenty-year government bonds dropped from a high of 6.85 per cent. in November 1957 to a low of 4.85 per cent. in January 1959, remaining for the next few months at about 4.9 per cent.

In the Netherlands, as a result of the substantial current-account balance-of-payments surplus attained in 1958, together with a large and exceptional net capital inflow, the banking system's net purchases of gold and foreign exchange from the economy came to Fl. 2,250 million. This accrual of funds, which had as its counterpart a direct and large-scale replenishment of private liquidity, tended also to increase the reserves of the banking system quite out of proportion to the economy's current and prospective credit needs.

The monetary authorities were considerably assisted in their task of bringing bank liquidity under control by financial developments in the public sector. The local authorities, which in preceding years had relied heavily upon short-term financing, raised Fl. 1,530 million in the domestic capital

Netherlands: Changes in financial assets and liabilities,
by sectors, 1956-58.

Items	Years	Central government	Local authorities	Institutional investors ¹	Private sector	Rest of the world
		round figures, in millions of florins				
Financial surplus or deficit (—)						
Cash basis	1956	110	—1,230	1,870	—1,390 ²	— 630 ³
	1957	330	—1,540	1,650	— 860 ²	— 420 ³
	1958	— 480	—1,200	2,580	790 ²	1,690 ³
Corresponding changes in financial assets (increase +) and liabilities (increase —)						
Primary liquid resources	1956	—	— 50	— 20	— 290	
	1957	—	—	20	— 220	
	1958	—	30	—	1,050	
Secondary liquid resources	1956	330	— 250	— 220	200	— 990 ⁴
	1957	— 140	— 420	270	620	— 280 ⁴
	1958	— 350	— 110	330	610	2,250 ⁴
Bank credit	1956	— 90 ⁵	— 170	70	— 500	
	1957	— 220 ⁵	20	— 10	— 200	
	1958	400 ⁵	— 60	70	280	
Monetary credit by central government to local authorities	1956	—	—			
	1957	530	— 530			
	1958	— 530	530			
Long-term credit	1956	— 240	— 760	2,040	—1,170	— 130
	1957	— 60	— 610	1,370	— 980	— 280
	1958	— 250	—1,530	2,180	—1,540	—1,140
Borrowing (—) or lending (+) abroad	1956	110 ⁶	—	—	390 ⁷	490
	1957	220 ⁶	—	—	— 80 ⁷	140
	1958	250 ⁶	— 60	—	390 ⁷	580

¹ This sector includes, inter alia, the savings banks, life assurance companies, pension funds and social insurance funds. ² Includes retained profits and net transactions in bonds and shares by the central bank and the commercial banks. ³ Net foreign investment (i.e. balance of payments on current account). ⁴ Total domestic liquidity surplus (+) or deficit (—) (equals increase or decrease in net foreign exchange assets). ⁵ Includes net short-term borrowing abroad. ⁶ Includes capital transfers to foreign countries. ⁷ Consists mainly of net direct investments abroad.

market in 1958, as against only Fl. 610 million in 1957; their net new bond issues came to Fl. 640 million, compared with Fl. 400 million in 1957, while their acquisition of funds through the direct placing of long-term loans rose to Fl. 890 million from Fl. 210 million in the preceding year. In 1958 the bulk of both new bond issues and direct placings were made via the Bank for Netherlands Municipalities. With the proceeds of these operations, together with a small amount of net borrowing from abroad, the local authorities were able to repay the cash advance of Fl. 530 million obtained in 1957 from the central government, while at the same time having almost sufficient long-term resources left over to cover the sector's financial deficit. In addition, the local authorities placed well over Fl. 300 million of short-term paper with the banking system and the market, using most of the proceeds to augment liquid resources and reduce short-term indebtedness to the central bank, the small residue being needed to bridge the financial deficit.

The change in the outcome of the central government's financial transactions from a surplus of Fl. 330 million in 1957 to a deficit of Fl. 480 million in 1958 was partly due to the non-recurrence in the latter year of an acceleration of tax payments which took place in 1957. The deficit was more than covered by the repayment of Fl. 530 million received from the local-authority sector (viz. from the Bank for Netherlands Municipalities). Moreover, while the central government also increased its long-term borrowing, the funds so raised (Fl. 250 million) were offset by an equivalent net volume of loans and capital transfers to foreign countries. Although, as may be seen from the table, the sector's net liquidity position changed very little, a decline in secondary liquid assets having been rather more than offset by a reduction in bank debt outstanding, the transactions underlying these summary figures were very important from a monetary point of view. The negative figure of Fl. 350 million represented mainly net borrowing outside the banking system. The bank credit item, reflecting a net repayment of Fl. 400 million, conceals an additional placing of Fl. 420 million in Treasury paper with the money-creating institutions, which brought total net short-term borrowing to Fl. 770 million; these funds were used partly to repurchase Treasury paper previously placed with the International Monetary Fund (Fl. 260 million) and partly to repay foreign short-term bank credit (Fl. 300 million), the remainder being employed to reduce indebtedness to, and increase deposit balances with, the central bank.

Through its net purchases of gold and foreign exchange, the Nederlandsche Bank injected liquid funds totalling Fl. 2,130 million into the money market in 1958. Hence, despite the liquidity-absorbing effects of the large improvement in the position of the Treasury and the local authorities vis-à-vis the Nederlandsche Bank and of the repayment of foreign-held Treasury paper, the Nederlandsche Bank still had to take vigorous action to prevent an excessive build-up of bank liquidity. Open-market sales of securities were carried out on a record scale, reducing money-market liquidity by some Fl. 550 million, and the cash-reserve ratio of the banks was raised, in stages, from 4 per cent. to 10 per cent. in the course of 1958.

The object of these moves was not to offset the primary increase in private liquidity, but rather to obviate the danger of a secondary credit expansion based on excessive bank liquidity and, at the same time, to ensure an orderly movement of interest rates. The Nederlandsche Bank reduced its discount rate, in stages, from 5 per cent. to 3 per cent., and then further to $2\frac{3}{4}$ per cent. early in 1959. The rate on three-month Treasury bills declined with little interruption from a high of about $4\frac{3}{4}$ per cent. in September 1957 to about $1\frac{3}{4}$ per cent. in the first quarter of 1959. In the capital market, interest rates fell appreciably towards the end of 1957 and during the first half of 1958; for instance, the Bank for Netherlands Municipalities, which at the beginning of the year was still issuing 6 per cent. bonds, was by the summer able to borrow at $4\frac{3}{4}$ per cent. Long-term rates moved upward slightly during the second half of 1958, but by the end of the first quarter of 1959 they were back at about the levels of the preceding summer.

Capital-market activity greatly increased in 1958, the total flow of funds rising to Fl. 3,920 million from Fl. 2,440 million in 1957. The direct acquisition of capital-market assets by individuals and business firms remained more or less unchanged, but the amount of funds becoming available through institutional channels rose sharply to Fl. 2,580 million from Fl. 1,650 million in 1957, reflecting primarily a rise in funds placed with the savings banks but also a substantial increase in pension and social insurance funds. Most, but not all, of this increased flow of funds was channelled into the long-term capital market, the institutional investors having also increased their holdings of short-term public-authority paper. Moreover, the additional funds which were in fact invested on the capital market were also absorbed by public authorities. Although the private sector increased its net capital-market borrowing from Fl. 980 million in 1957 to Fl. 1,540 million in 1958, more than one-half of this total was accounted for by a large block of shares (Fl. 867 million) issued early in 1958 by the Royal Dutch Petroleum Company. Other private security issues, consisting almost entirely of bonds, declined in comparison with 1957.

The action taken by the central bank and the public authorities did not, as has already been stressed, prevent a substantial reconstitution of private liquidity in 1958. As may be seen from the table, the private sector's direct holdings of primary and secondary liquid assets rose by Fl. 1,660 million and its bank debts declined by Fl. 280 million. Moreover, despite the liquidity-absorbing effects of official policy measures, the combined balance sheet of a large representative group of commercial banks increased by over 15 per cent. in 1958, reflecting primarily a growth in claims on the government and the central bank. The average money supply, after declining by about 2.5 per cent. between 1956 and 1957, increased by 4.4 per cent. in 1958, compared with a rise of 3.0 per cent. in the gross national product.

In Switzerland the tendencies towards greater liquidity in the credit markets, though up to a point similar in origin to those in most other

countries, were accentuated by the Federal Government's large-scale net redemptions of market-held debt. As elsewhere, the central bank's net acquisitions of gold and foreign exchange were very large, rising to Sw.fcs. 725 million in 1958 compared with Sw.fcs. 435 million in 1957, and the liquidity effect of these purchases was partly offset by an increase in the note circulation (Sw.fcs. 178 million) and a sizable reduction in outstanding central-bank discounts and advances. On the other hand, the Federal Government, supplementing funds derived from its budget surplus, made large withdrawals from its central-bank deposits (which declined from Sw.fcs. 471 to 106 million during 1958) in order to redeem three maturing bond issues aggregating Sw.fcs. 595 million. The first two of these issues (totalling Sw.fcs. 295 million) fell due in the first half of 1958, at a time when the government wished to accelerate the increase in the economy's liquidity. In November, however, when the remaining Sw.fcs. 300 million matured, an agreement was reached between the central bank and the government to the effect that Sw.fcs. 100 million should be removed from the market by means of a special issue of Treasury certificates. These changes, it may be noted, were largely responsible for the reduction of Sw.fcs. 511 million in the Federal Government's total debt in 1958 (it had declined by Sw.fcs. 668 million in 1957). As an additional measure to absorb liquidity, the National Bank sold on the market Sw.fcs. 120 million's worth of bonds belonging to the Federal Government.

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	- 160
1957	+ 250	+ 1,975	+ 410	+ 155	+ 445	+ 790	+ 58
1958	+ 1,290	+ 1,865	+ 690	+ 300	- 240	+ 835	+ 495
Outstanding at the end of 1958 . .	8,195	23,290	2,785	2,735	8,455	14,610	3,055

The total liabilities (excluding interbank deposits and own resources) of the large group of banks included in the table rose in 1958 by Sw.fcs. 3,155 million, or over 11 per cent., as compared with an already large increase of Sw.fcs. 2,225 million in 1957. There was a remarkable growth in sight deposits, while the overall change in longer-term liabilities was the net result of large increases in savings deposits and savings bonds and a simultaneous sharp falling-off in the banks' own issues of securities and mortgage bonds. Sufficient investment outlets for new loanable resources on this scale were lacking. The banks' bill portfolio increased substantially, as they ceased to discount bills with the central bank, but outstanding advances actually declined and it

was not until the second half of the year that mortgage lending began to accelerate slightly. In these circumstances, the banks invested heavily in securities, a large part of which were acquired from abroad, but there still remained a very sizable accumulation of loanable funds (Sw.fcs. 690 million) which were merely added to cash holdings (mainly sight deposits kept with the central bank.)

Net domestic issues of capital declined sharply from Sw.fcs. 1,119 million in 1957 to Sw.fcs. 286 million in 1958. This decline, however, was principally a reflection of the large net redemptions of bonds by the Federal Government (the reduction in its debts during 1957 had taken the form mainly of the repayment of book debts not appearing in capital-issues statistics) and of the sharp fall in issues by the banks and other financial institutions, which had become sufficiently liquid to meet anticipated demands for funds. On the other hand, new issues of bonds and shares by the electric power stations, industry and miscellaneous enterprises increased noticeably. In addition, following the reopening of the domestic capital market to foreign issues in August 1958, after an interval of two years, the gross amount of such issues rose again quickly, totalling Sw.fcs. 137 million during the remaining months of the year and Sw.fcs. 215 million in the first quarter of 1959.

The yield on Federal Government bonds, which had amounted to 3.93 per cent. at the end of September 1957, declined sharply during the first half of 1958 but thereafter levelled off at about 3 per cent., this being ascribable partly to the National Bank's open-market operations but also to a shifting of funds towards savings bonds ("bons de caisse"), whose yields had fallen less, and savings deposits, the average rate on which (at twelve cantonal banks) remained at 2.85 per cent. throughout 1958. At the turn of the year, however, all rates began to move downward together, this decline being followed by a reduction in the central bank's discount rate from $2\frac{1}{2}$ to 2 per cent. in February. Rates on old mortgages, which edged upward gradually until the middle of 1958, fell back again slightly early in 1959, averaging 3.81 in April. In the spring new mortgage loans were increasingly being granted at $3\frac{3}{4}$ per cent. Meanwhile, the average yield on Federal Government bonds had declined in April to 2.83 per cent.

In Austria a favourable balance-of-payments trend, dating back to 1956, contributed to a substantial inflow of foreign exchange and a marked growth in domestic liquidity in 1957 and 1958. The increase in liquidity, however, was not accompanied by any perceptible downward adjustment in the structure of interest rates. As part of a broader pattern of policy, the central bank's discount rate was kept at 5 per cent. throughout the period 1956-58. In 1958, when domestic activity began to slow down, the continued maintenance of a high level of rates helped to accelerate the influx of foreign exchange by attracting an exceptionally large capital inflow, which was twice as great as in 1957 and accounted for three-quarters of the net increase — of Sch. 4.2 milliard — in the exchange reserves. The government's interest-rate

**Austria: Changes in selected items of the combined balance sheets
of all credit institutions.**

Change during	Liabilities		Assets			
	Current accounts	Savings deposits	Cash	Treasury certificates	Securities and participations	Commercial credit outstanding
<i>in millions of schillings</i>						
1955	- 598	+ 2,457	- 369	- 405	+ 1,737	+ 3,991
1956	+ 92	+ 2,520	+ 429	- 11	+ 1,768	+ 2,937
1957*	+ 1,197	+ 4,079	+ 874	+ 654	+ 971	+ 3,530
1958	+ 2,163	+ 4,656	+ 2,026	+ 1,707	+ 1,086	+ 3,220
Outstanding at the end of 1958 . . .	19,731	21,254	6,570	4,372	8,227	31,585

* New series.

policy was based on its preference, in pursuit of the objectives of its ten-year investment plan, for increasing investment by direct measures during periods of slackening economic activity. The purpose of the foreign loans contracted was mainly to raise funds for speeding up the construction of electric power plants and financing the government's rising investment and other expenditure.

The money supply expanded by nearly 12 per cent. in 1958, while the growth in savings deposits exceeded 28 per cent. As may be seen from the table, the deposit liabilities of all the credit institutions rose by Sch. 6.8 milliard, as against Sch. 5.3 milliard in 1957, while commercial credit, though up by over 10 per cent., increased by a smaller amount than in the preceding year. The granting of new credit was not restrained by the credit ceilings in force in 1958; following the adoption in April 1957 of a more flexible formula for their calculation, these ceilings rose considerably, so that at the end of 1958 they were, in the aggregate, Sch. 5.2 milliard above the total of bank loans outstanding. In 1958 the exceptional growth in the liquidity of the credit institutions was reflected in a substantial increase in their holdings of Treasury certificates and an even larger rise in their cash balances, which are mostly kept at the central bank.

The amount of new money raised in 1958 on the domestic capital market through the issue of fixed-interest-bearing securities was Sch. 3.1 milliard, or more than twice as much as in 1957. The Federal Government and electricity enterprises were responsible for over three-quarters of the issues, all of which have an effective yield of close on 7 per cent. and currency periods ranging from fifteen to twenty years. A large and growing proportion of the new issues have been taken up by the public and the insurance institutions. A 7 per cent. Federal loan issue for a nominal amount of Sch. 1.5 milliard, which was offered for subscription at par from 23rd March to 11th April 1959, proved very attractive to both domestic and foreign investors, and the amount on offer was therefore raised to Sch. 1.8 milliard.

On 23rd April 1959, in view of the high degree of liquidity in the financial markets and in order to stimulate activity, the Austrian National

Bank reduced its discount rate from 5 to 4½ per cent.; this step was followed by an equal reduction in the lending rates of the private banks.

In Denmark a rapid and continuing increase in foreign exchange reserves in 1958 was accompanied by a remarkable growth in bank deposits. Total demand, time and savings deposits with the commercial banks and major savings banks increased by 14 per cent. during the year, while notes in circulation and postal giro deposits rose by 8 per cent.

Denmark: Central-bank transactions tending to increase (+) or reduce (–) the liquidity of the credit institutions.

Factors	Change during					
	1957			1958		
	1st half	2nd half	whole year	1st half	2nd half	whole year
In millions of Danish kroner						
Operating transactions						
Note circulation (increase –) . . .	+ 169	– 229	– 60	+ 65	– 275	– 210
Government accounts with the central bank	– 145 ¹	+ 12	– 133 ¹	– 30 ²	– 127	– 157 ²
Net foreign exchange purchases . .	– 157 ¹	+ 261	+ 104 ¹	+ 382 ²	+ 415	+ 797 ²
Other transactions	+ 21	–	+ 21	– 40	– 1	– 41
Total 1	– 112	+ 44	– 68	+ 377	+ 12	+ 389
Credit transactions						
Securities	– 3	– 1	– 4	– 170	+ 190	+ 20
Deposit certificates	–	–	–	– 50	– 474	– 524
Advances	+ 33	+ 31	+ 64	– 120	+ 206	+ 86
Total 2	+ 30	+ 30	+ 60	– 340	– 78	– 418
Changes in commercial and savings-bank deposits with the central bank (1+2)	– 82	+ 74	– 8	+ 37	– 66	– 29

¹ Excludes a drawing of D.Kr. 235 million from the I.M.F., which would otherwise have been reflected as an increase (+) in the central bank's holdings of foreign exchange offset by a corresponding reduction in the Treasury's debt to the central bank. ² Excludes a repayment of D.Kr. 176 million to the I.M.F., which involved a transaction the reverse of that described in footnote 1.

In the first half of 1958, when Danmarks Nationalbank's net purchases of foreign exchange totalled D.Kr. 380 million, bank liquidity increased greatly. During this period of declining economic activity, however, the banks found that their investment possibilities were limited not only because the demand for credit was relatively weak but, in addition, because Treasury bill issues had earlier been discontinued by the central government. In consequence, they began to invest short-term funds on the capital market on such a scale as to contribute to an unduly rapid increase in bond prices. In order to prevent the rise in bond prices from going so far that it might later disrupt the market, the central bank made net sales of D.Kr. 170 million's worth of securities. In this period, moreover, the banks repaid D.Kr. 120 million's worth of advances owed to the central bank.

In the second half of the year, the central bank's net purchases of foreign exchange came to D.Kr. 415 million, but the effect on bank liquidity

was largely offset by a sizable increase in the note circulation and a net reduction in the government's debt towards the central bank. The latter's credit transactions with the economy, however, evolved in a particularly interesting manner during this period. From June onwards, the commercial banks (together with the savings banks and stock exchange dealers) were given the opportunity of investing in a new type of three-month negotiable "deposit certificate", issued at variable interest rates fixed once a week by the central bank, against which the holders can borrow at a discount from the bank. Following this innovation, and coincident with a buoyant recovery in economic activity, the banks invested D.Kr. 475 million's worth of liquid funds in this new medium in the second half of 1958, thus accentuating the tendencies towards a fall in bond prices and a rise in yields which characterised the period. Reversing its position of the preceding half-year, the central bank thereupon gave support to the long-term market by buying D.Kr. 190 million's worth of securities. At the same time, central-bank advances to the banks increased considerably, though this was partly due to special and temporary government needs for bank credit.

Taking the year as a whole, the commercial banks' deposit liabilities increased by D.Kr. 1,360 million, while their loans and discounts rose by only D.Kr. 435 million, mostly in the second half. Their investments, on the other hand, increased by D.Kr. 950 million, about half this rise having been due to purchases of deposit certificates. Outside the commercial-banking sector, the large increase in savings deposits, together with a substantial expansion in mortgage bond issues by the mortgage credit associations, stimulated house-building in 1958. These trends appear to have continued during the early months of 1959.

The yield on $4\frac{1}{2}$ per cent. government bonds (1997), which stood at 5.41 per cent. in February 1959, was somewhat above the low point reached in the autumn of 1958, but it was still much below the peak of 7 per cent. attained in April 1957. The central bank's discount rate, after having been reduced from $5\frac{1}{2}$ to 5 per cent. in April 1958 and then to $4\frac{1}{2}$ per cent. in August, has since remained unchanged. Although bank liquidity is greater than ever before and could conceivably give rise to difficulties later on, the strengthening of the foreign exchange position has given considerably more scope for policies, some of which were introduced in 1958, which will stimulate capital-market activity and productive investment.

In Norway, while the current-account balance of payments shifted from a surplus of N.Kr. 147 million in 1957 to an exceptionally large deficit of N.Kr. 1,235 million in 1958, the country's total foreign exchange reserves increased by N.Kr. 330 million. Net external financing, therefore, came to about N.Kr. 1,565 million, of which N.Kr. 700 million was accounted for by foreign loans to shipowners and the remainder by public and private borrowing of different sorts.

The liquidity supplied to the economy by Norges Bank, mainly through its net purchases of foreign exchange, amounted to N.Kr. 480 million in

1958. However, this injection of funds was more than offset by the transactions of the central government, whose financial surplus increased from N.Kr. 330 million in 1957 to N.Kr. 720 million in 1958. This surplus exceeded by N.Kr. 275 million the funds lent to the state banks, which as a matter of government policy received a smaller volume of state funds in 1958 than in 1957. Nevertheless, the central government borrowed an additional net sum of N.Kr. 270 million from public institutions and the capital market, bringing its total net absorption of liquidity to N.Kr. 545 million, a large part of which was employed to increase its deposits with the central bank. One reason for this offsetting action lay in the fact that the net increase in foreign exchange reserves represented anticipatory borrowing which in effect was earmarked for ship purchases at a later date. On balance, the state's absorption of funds exceeded by N.Kr. 65 million the net additional liquid resources arising out of the economy's transactions with the central bank.

Norway: Liquidity effects¹ of transactions of the state and Norges Bank, 1956-58.

Items	1956	1957	1958
	round figures, in millions of Norwegian kroner		
Financial surplus of the state ²	- 360	- 330	- 720
State loans to state banks	545	470	445
Borrowing by the state			
From public institutions	- 140	- 195	- 150
Domestic loan issues	- 450	- 490	- 515
Repayment of state debt	180	305	395
Liquidity effect of the state's transactions with the economy	- 225	- 240	- 545
Liquidity effect of purchases of foreign currencies and other central-bank transactions	440	200	480
Total liquidity effect of state and central-bank transactions	215	- 40	- 65

¹ A minus sign signifies absorption of liquidity.

² Current-account surplus minus the state's own investment.

As the table above suggests, monetary and fiscal policy was generally more restrictive in 1957 and 1958 than in 1956, although the effects were moderated by certain expansionary measures, mainly of a fiscal nature, adopted in the course of 1958. In so far as the banking system is concerned, the effects of the restrictive policy were visible more in a tightening liquidity position and a slower rate of growth of deposit liabilities than in bank lending as such. Although total deposits rose by less than half as much as in 1957, security holdings were substantially reduced, these various changes together forming the balance-sheet counterpart of a volume of lending as large as that in the preceding year.

The comparative tightness of monetary and fiscal policy in 1958 was partly motivated, particularly in view of the attractiveness of borrowing conditions abroad, by the desire to encourage the inflow of foreign capital — an objective which appears to have been attained. When towards the middle of the year the need for a certain expansionary impulse became increasingly

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

Change during	Liabilities			Assets				
	Demand and fixed deposits	Time deposits	Total deposits	Cash and deposits with Norges Bank	Treasury bills	Bearer bonds and shares	Mortgages	Loans and discounts
round figures, in millions of Norwegian kroner								
1955	+ 170	+ 315	+ 485	+ 55	- 85	- 95	+ 185	+ 180
1956	-	+ 470	+ 470	+ 20	+ 30	+ 80	+ 175	- 45
1957	- 30	+ 545	+ 515	+ 85	- 30	+ 70	+ 190	+ 260
1958	- 35	+ 230	+ 195	+ 10	- 100	- 15	+ 250	+ 185
Outstanding at the end of 1958 . . .	3,035	9,250	12,285	1,065	45	2,655	3,345	6,195

recognised, the measures adopted were mainly of a selective fiscal nature. However, given the tightening liquidity position of the banking system, it was thought safe to remove the existing credit ceilings, and lending directives were modified to facilitate the financing of exports and the building-up of stocks under specified conditions. Pending the outcome of an inquiry concerning the instruments of credit policy, the lending activities of both banks and insurance companies will continue to be governed by certain guiding principles which, as modified for the year 1959, are intended to ensure that the gross borrowing needs of the state will be covered in large measure by these institutions.

In Sweden recessionary influences in 1958 were less marked than in Norway. Not only did export earnings hold up better but the central government's budget, already tending towards larger deficits before deflationary influences began to be felt, was quickly modified so as to impart a still stronger anti-cyclical impulse. Although the current-account balance of payments deteriorated somewhat, foreign exchange holdings increased, but not so much as to present a special problem as regards bank liquidity, as was the case in a number of the other western European countries.

The net financial position of the public sector deteriorated from a surplus of S.Kr. 100 million in 1956 to deficits of S.Kr. 450 million in 1957 and S.Kr. 850 million in 1958. Over the same three-year period the private sector recorded an improvement of corresponding magnitude. In 1958 it attained a surplus of S.Kr. 700 million, partly due to inventory liquidation by business.

On a July-to-June fiscal year basis, the financial counterpart of the central government's deteriorating budget position can be traced in some detail. In 1957-58 the central government's financial surplus declined slightly compared with the preceding year, but a rise in lending for housing purposes and to state enterprises brought total net borrowing requirements up to S.Kr. 1.3 milliard, compared with S.Kr. 0.9 milliard in 1956-57. However, actual net borrowing, at S.Kr. 1.5 milliard, exceeded net financial requirements and

the excess was sterilised with the central bank. In the current fiscal year 1958-59, according to preliminary forecasts, the preceding year's financial surplus will be replaced by a deficit of S.Kr. 1.1 milliard, while lending will remain at about the same level, thus raising overall borrowing needs to S.Kr. 2.3 milliard. Of this total, it is estimated that S.Kr. 1.8 milliard will be borrowed from the banks and the market, while the remaining sum of S.Kr. 0.5 milliard will be drawn principally from sterilised funds.

The extent to which the central government obtained finance from the banking system is reflected, on a calendar year basis, in the table below. Net claims on the public authorities (which consisted almost entirely of credit to the state) increased by S.Kr. 1,120 million in 1958, compared with a rise of S.Kr. 1,330 million in 1957 and one of only S.Kr. 520 million in 1956. Of the increase in 1958, some S.Kr. 330 million was accounted for by transactions with the Riksbank, a drawing-down of government deposits (including sterilised funds) by S.Kr. 840 million being offset in part by a decline of S.Kr. 505 million in the Riksbank's holdings of government securities. In addition, the commercial banks increased their claims on the public authorities by S.Kr. 785 million.

Sweden: Formation of the money supply.*

Items	1955	1956	1957	1958	Outstanding at the end of 1958
	In millions of Swedish kronor				
Changes in the money supply					
Currency	+ 231	+ 280	+ 242	+ 219	6,059
Demand deposits	- 184	+ 101	- 83	- 61	1,988
Total	+ 47	+ 381	+ 159	+ 158	8,047
Changes in corresponding items					
Gold and foreign exchange	+ 38	+ 214	+ 73	+ 153	2,991
Claims on the public authorities (net) on the private economy	+ 523 - 581	+ 519 + 104	+ 1,332 + 178	+ 1,119 + 864	9,520 11,754
Total claims	- 59	+ 623	+ 1,510	+ 1,983	21,274
Increase in time and savings deposits (-)	- 66	- 380	- 1,256	- 1,785	- 13,999
Other items	+ 133	- 76	- 168	- 193	- 2,219
Grand total	+ 47	+ 381	+ 159	+ 158	8,047

* 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.

Despite the emergence of recessionary tendencies in 1958, the banking system's claims on the private economy rose by S.Kr. 865 million during the year, the last increase of comparable magnitude having occurred in 1954. A basic factor behind the credit expansion was, as in the United Kingdom, the removal of the ceiling on advances (in July 1957), which made funds more readily available and caused some borrowing to revert to more normal credit channels. In addition, however, business activity remained lively in many sectors, and stocks of finished goods, as distinct from materials and goods in

process, appear to have increased in 1958. Moreover, even though credit demands expanded, the banks' liquidity was kept at a high level owing to the growing expenditure surplus of the central government.

Although the total amount of credit supplied to the economy by the banking system, at S.Kr. 2.0 milliard, was considerably higher in 1958 than in earlier years, the increase in the currency circulation was somewhat smaller, while demand deposits actually declined for the fourth time in five years. The main counterpart of the large increase in bank credit was therefore the growth in time and savings deposits, which expanded in 1958 by S.Kr. 1.8 milliard.

The supply of capital-market funds from institutional and private sources is estimated to have totalled S.Kr. 2.9 milliard, or slightly more than in 1957. The amount provided by the insurance companies was a shade smaller than in 1957, while a rise in savings-bank funds was offset by an equal fall in those placed with the post office. New private funds invested on the capital market amounted to S.Kr. 350 million, compared with S.Kr. 290 million in 1957. On the demand side, the public authorities (in particular, the local authorities) appear to have absorbed a larger share of capital-market resources, partly because the private economy's needs were being satisfied to a greater extent by bank credit, public-authority loans and the release by the central government of blocked investment funds.

In Finland the increase of FM 21.5 milliard in the Bank of Finland's holdings of foreign exchange reserves was the most important expansive factor determining the supply of central-bank funds to the economy in 1958. A large part of the inflow, however, was more or less automatically offset as a result of the state's placing with the central bank FM 15.5 milliard collected under the export levy scheme which had been introduced at the time of the 1957 devaluation. Of this total, FM 8.1 milliard was used to repay part of the central bank's holdings of the Treasury Bond Loan of 1953, while the remainder was allocated for use in making long-term investment loans to industry, of which, however, only FM 1.8 milliard had actually been paid out by the end of the year.

Despite the sterilising effects of the export levy, the residual impact of the exchange inflow, together with the strong propensity of the public to increase its deposits with the banking system, led to a rapid growth in liquidity. Moreover, owing to the reduced level of employment and output, credit policy was gradually relaxed throughout the year, and this, too, tended to increase the liquidity of the public and the banks. The export levy was reduced in four stages, on the initiative of the central bank, and finally abolished altogether in September 1958, after which date the loans from the funds accumulated under this scheme began to be paid out. In addition, the bank gave more liberal approval during the year to capital issues by financial institutions for the purpose of financing investment loans, repaid to exporters certain funds earlier placed on a voluntary basis in a business-cycle fund (established in 1954) and encouraged the post office savings bank to increase

its lending for purposes of house-building. An additional amount of central-bank money was supplied to the economy through the placing of the proceeds of an Export-Import Bank loan with a Finnish mortgage bank for re-lending to industrial enterprises.

In addition to the foregoing measures, the terms governing rediscounting with the central bank were progressively moderated early in 1958 so as to eliminate penalty interest charges. As a next step, negotiations were carried out in the autumn to lower the level of interest rates, and the Bank of Finland cut its rediscount rate from 8 to 7¼ per cent., while leaving its discount rate for its own customers unchanged. Moreover, the additional interest of 1 per cent. charged by commercial banks as an "index increase" since April 1957 was first reduced, in October 1958, and then abolished altogether by the end of the year. A second general lowering of interest rates occurred early in 1959, at which time the Bank of Finland's discount and rediscount rates were reduced by ½ per cent.

Finland: Formation of the money supply.¹

Items	1955	1956	1957	1958	Out- standing at the end of 1958
	in milliards of markkas				
Changes in the money supply					
Currency	+ 7.2	+ 2.2	+ 1.8	+ 4.6	57.9
Demand deposits	- 1.1	+ 5.4	+ 1.0	+ 7.6	66.7
Total	+ 6.1	+ 7.6	+ 2.8	+ 12.2	124.6
Changes in corresponding items					
Gold and foreign exchange (net)	+ 5.1	- 16.3	+ 11.6	+ 32.6	70.5
Claims on the public authorities (net)	+ 5.0	+ 4.7	- 0.1	+ 6.9	51.9
on the private economy	+ 57.7	+ 15.0	+ 21.9	+ 33.0	479.0
Total claims	+ 62.7	+ 19.7	+ 21.8	+ 39.9	530.9
Increase in time and savings deposits (-)	- 51.2	- 4.6	- 12.0	- 45.9	- 364.9
Other items ²	- 10.5	+ 8.8	- 16.6	- 14.4	- 91.9
Grand total	+ 6.1	+ 7.6	+ 2.8	+ 12.2	124.6

¹ This table represents a consolidated balance sheet of the central bank, the commercial banks and all savings institutions. ² Including state loans to co-operatives.

Partly as a result of influences already mentioned, but also because of the relatively steady trend of prices and the slackening of demand for goods, total deposits (demand, time and savings) placed with the financial institutions rose by FM 53.5 milliard in 1958 (FM 13.0 milliard in 1957), but there was no change in the total volume of deposits carrying an index clause. Concurrently with this development, as may be seen in the table, the credit granted by the commercial banks and savings institutions to the private sector and to the public authorities increased rather substantially, though not nearly so much as their liquidity would have permitted. Indeed, one sign of the high degree of liquidity was that the central bank's private customers

reduced their bill and overdraft indebtedness by FM 4.9 milliard, while the banks cut down the volume of rediscounted bills outstanding by FM 6.2 milliard. Along with the contractive effect of the export levy proceeds and certain other miscellaneous central-bank transactions, these repayments had the result of offsetting the central bank's net acquisition of foreign exchange and other assets in 1958, and its balance-sheet total did not increase perceptibly over the year.

* * *

Increases in liquidity as great as those witnessed in most western European countries in 1958-59 have, historically, usually been associated either with a marked decline in private demand and output or else, at other times, with heavy and exceptional deficit spending by the central government. On this occasion, however, they were not attributable to the existence of either of these situations.

The growth in private liquidity, having been reflected largely in a considerable improvement in the financial relationships of the various economies with the rest of the world, did not have any serious secondary repercussions on domestic economic activity. In particular, in most western European countries the budget positions of the central governments remained relatively strong; and in so far as there was an increase in the amount of government securities placed with the banking system or the capital market, this was often a reflection of the authorities' desire to sterilise liquidity or to raise funds for the purpose of accelerating public investment.

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	77,600	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
1958	34,440	15,660	128,900	12.1	14.6	26.7
Belgium (francs)						
1938 ¹	41,200	23,600	80,000	29.5	22.0	51.5
1949	150,540	89,120	342,900	26.0	17.9	43.9
1953	175,120	103,340	430,100	24.0	16.7	40.7
1955	186,700	108,610	477,100	22.7	16.4	39.1
1956	193,390	111,480	513,300	21.7	16.0	37.7
1957	196,640	114,030	537,400	21.2	15.4	36.6
1958	202,000	117,300	550,000*	21.3	15.4	36.7
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
1953	7,080	1,890	28,650	6.6	18.1	24.7
1955	7,260	2,010	31,080	6.4	16.9	23.3
1956	7,570	2,150	33,310	6.4	16.3	22.7
1957	7,970	2,220	33,500	6.3	16.2	22.5
1958	8,700	2,360	36,470	6.5	17.3	23.8
Finland (markkas) in milliards						
1948 ¹	54	24	396	6.0	7.5	13.5
1953	84	39	815	4.8	5.5	10.3
1955	98	45	986	4.5	5.4	9.9
1956	104	50	1,113	4.5	4.8	9.3
1957	104	50	1,194	4.2	4.5	8.7
1958	112	53	1,254	4.2	4.8	9.0
France (francs) in milliards						
1938	200	120	440	26.1	18.0	44.1
1946	1,210	670	3,020	22.1	18.0	40.1
1953	4,370	2,200	14,530	15.1	14.9	30.0
1955	5,540	2,700	17,150	15.7	16.6	32.3
1956	6,240	3,010	18,600	16.2	17.3	33.5
1957	6,730	3,250	20,740	15.7	16.7	32.4
1958	7,160	3,430	23,570	14.6	15.8	30.4
Germany (D. Mark)²						
1950	16,410	7,770	97,200	8.0	6.9	16.9
1953	23,620	11,350	143,800	7.9	8.5	16.4
1955	29,190	13,270	175,800	7.6	9.0	16.6
1956	31,840	14,480	193,400	7.5	9.0	16.5
1957	35,090	15,820	209,600	7.5	9.2	16.7
1958	39,610	17,390	222,300	7.8	10.0	17.8
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
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	14,960	12.7	16.3	29.0
1958	4,740	2,030	15,890	12.8	17.1	29.9

Footnotes on next page.

Money supply and gross national product (continued).

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
1946	5,500	2,400	10,700	22.4	29.0	51.4
1953	8,030	3,250	24,270	13.4	19.7	33.1
1955	9,140	3,850	29,920	12.9	17.7	30.6
1956	9,320	4,170	32,170	12.9	16.0	28.9
1957	9,090	4,260	35,020	12.2	13.8	26.0
1958	9,490	4,390	36,100	12.2	14.1	26.3
Norway (kroner)						
1938 ¹	620	460	5,860	7.7	2.9	10.6
1946 ¹	4,320	1,870	11,030	17.0	22.2	39.2
1953	5,980	2,770	22,830	12.1	14.1	26.2
1955	6,020	3,050	26,200	11.7	11.3	23.0
1956	5,980	3,070	29,390	10.4	9.9	20.3
1957	6,200	3,160	31,360	10.1	9.7	19.8
1958	6,230	3,170	31,200	10.2	9.8	20.0
Sweden (kronor)						
1938	2,780	960	12,000	8.0	15.2	23.2
1945	6,060	2,500	20,500	12.2	17.4	29.6
1953	10,100	4,470	42,880	10.4	13.1	23.5
1955	10,550	4,960	48,930	10.1	11.4	21.5
1956	10,910	5,220	53,140	9.8	10.7	20.5
1957	11,410	5,490	57,540	9.5	10.3	19.8
1958	11,520	5,590	59,660	9.4	9.9	19.3
Switzerland (francs)						
1938	4,570	1,780	9,800	18.2	28.4	46.6
1945	8,240	3,820	15,200	25.1	29.1	54.2
1953	12,340	5,250	24,300	21.6	29.2	50.8
1955	13,120	5,580	27,710	20.1	27.2	47.3
1956	13,780	5,740	29,640	19.4	27.1	46.5
1957	14,430	6,010	31,300	19.2	26.9	46.1
1958	15,320	6,080	32,500	18.7	28.4	47.1
United Kingdom (pounds)						
1938	1,630	440	5,760	7.7	20.5	28.2
1946	4,550	1,340	9,950	13.5	32.3	45.8
1953	5,230	1,460	16,870	8.7	22.3	31.0
1955	5,500	1,660	19,100	8.7	20.1	28.8
1956	5,480	1,770	20,670	8.5	18.0	26.5
1957	5,520	1,840	21,860	8.4	16.8	25.2
1958	5,440	1,900	22,750	8.4	15.5	23.9
United States (dollars)						
1938	30,750	5,600	85,230	6.6	29.5	36.1
1946	105,960	26,400	210,660	12.5	37.8	50.3
1953	125,960	27,280	365,390	7.5	27.0	34.5
1955	132,230	27,190	397,470	6.8	26.5	33.3
1956	133,890	27,540	419,210	6.6	25.3	31.9
1957	134,550	27,770	440,330	6.3	24.2	30.5
1958	136,140	27,890	437,700	6.4	24.7	31.1

* Unofficial estimate. ¹ End of period. ² Including sight deposits of public authorities; including West Berlin since 1955.
 Note: The figures for currency circulation and total money supply are monthly averages of the year. The total money supply consists of the currency circulation (notes and coins) and demand deposits.

IV. Domestic and World-Market Prices.

In 1957 the rise in prices at consumer level continued, in all the countries considered in this Report, at approximately the same rate as in 1956. In the course of 1958 the position underwent a notable improvement. Except in a few special cases, there was a perceptible slowing-down in the upward movement of prices; indeed, in one country (Belgium) the price level remained practically stable, and in another (the Netherlands) consumer prices actually fell. This trend became generally more pronounced during the first few months of 1959, until countries with stable or even declining prices were in the majority.

In the Netherlands, largely as a result of an upward adjustment of rents (by 22 per cent.) in 1957, the rise in the cost of living (almost 11 per cent.) had been greater that year than in any other country except Spain (where consumer prices went up by 13 per cent.) and France. In 1958, however, this rather substantial rise in living costs in the Netherlands gave way to a fall (the only one in the list), owing to a reduction in the price of clothing and foodstuffs. At the other extreme are Spain and Iceland, where the cost of living went up by 12 and 11 per cent. respectively. France and Norway, where food prices rose sharply owing to the reduction in food subsidies, follow with price increases of 8.9 and 6.5 per cent. In Sweden, on the other hand, the rise in the index was attributable to an increase in indirect taxes on alcoholic beverages, sugar, tobacco and petrol. As from 1st April 1959 Belgium abolished the subsidies paid since 1940 to flour mills; as a result of the return to economic price conditions, the price of bread rose from B.fcs. 7.50 to B.fcs. 8.25 per kilo.

In France price rises were naturally to be expected as a result of the various measures (discussed elsewhere in this Report) adopted in 1957 and 1958 with a view to achieving a more realistic price structure. The adjustments made in rents, which had been kept particularly low, played a considerable part in raising the overall index. The measures taken last year involved a large-scale removal of subsidies, those on certain foodstuffs being totally abolished and those on several agricultural products partially done away with. In addition, charges for the products and services of nationalised enterprises were increased and the subsidies hitherto granted to these enterprises were reduced with a view to making them self-supporting. The widespread practice of indexation was also tackled, with the object of countering automatic and cumulative price increases. All agreements tying incomes to a price index, whether referring to wages or to agricultural prices, were cancelled. Only the guaranteed minimum wage, relating to the lowest wage incomes, remained linked to the "index of 179 articles". Wages above this legal minimum are now to be established by direct bargaining in the industry or firm concerned. The widening of the gap between domestic and foreign prices which might have been expected to result from these various measures was prevented

Consumer and wholesale prices.

Countries	Consumer prices				Wholesale prices			
	Percentage rise during							
	1956	1957	1958	1959 1st quarter	1956	1957	1958	1959 1st quarter
Austria	2.9	2.3	1.6	1.4	7.2	- 1.8	0.8	0.8
Belgium	3.2	2.9	0.2	0.0	3.8	0.5	- 5.4	- 0.5
Denmark	4.3	1.2	2.3	0.2	4.0	- 2.9	0.0	0.0
Finland	16.8	8.5	3.9	0.0	9.1	13.8	- 0.9	- 1.0
France	1.2	10.9	8.9	3.6	4.8	13.9	1.5	3.8
Germany	1.8	3.5	0.8	0.0	3.3 ¹	0.8 ¹	0.0 ¹	- 0.8 ¹
Greece	1.2	3.0	1.1	0.9	4.7	- 1.4	- 1.6	1.1
Iceland	6.3	2.7	11.0	- 4.7 ²	.	.	.	.
Ireland	2.4	5.9	2.7	0.9	0.6	7.9	1.2	.
Italy	4.2	3.7	1.2	- 0.2	3.2	- 1.3	- 4.1	- 1.3
Netherlands	3.7	10.8	- 0.8	0.0	5.1	- 0.7	0.0	- 1.4
Norway	4.9	2.0	6.5	0.0	5.7	0.0	- 0.9	0.0
Portugal	1.6	1.4	1.6	0.5	4.5	- 2.6	1.8	0.0 ²
Spain	8.4	13.2	11.9	0.6 ²	14.9	13.6	7.5	- 0.8 ²
Sweden	3.6	4.2	2.7	0.0	2.1	- 0.7	- 1.4	- 1.4
Switzerland	2.2	2.0	0.9	- 1.1	4.5	- 1.2	- 3.9	- 0.6
United Kingdom	3.1	4.6	1.8	0.1	3.8 ³	3.0 ³	- 0.7 ³	0.7 ³
Canada	3.0	2.6	2.2	- 0.6	2.9	- 0.8	1.3	0.7
United States	2.9	3.1	1.7	0.0	4.5	1.9	0.6	0.3

¹ Producer prices.

² February 1959.

³ Manufactured goods.

by a further devaluation of the French franc (by 14.93 per cent.) — which, in turn, was of course likely to exert an upward pressure on the price level — and by increasing competitiveness through trade liberalisation. In January and February 1959 Paris retail prices (the "index of 250 articles") rose by 2.5 per cent. and 1.4 per cent. respectively, while in March 1959 they fell by $\frac{1}{4}$ per cent.; for the first three months of 1959 the rise works out at 3.6 per cent., which, in view of the far-reaching measures and reforms introduced, is a fairly modest increase.

Among the prices for the main sub-groups covered by the index of consumer prices, those for foodstuffs went up less than in the previous year in nearly all cases (the main exception being Norway). Furthermore, owing to better harvests they often rose less than did the total index. In the German Federal Republic food prices remained more or less unchanged, while in Italy, the Netherlands and Switzerland they declined.

In practically all European countries rents rose, on an average, more than other prices — an indication of their continuous adjustment to economic realities after a long period in which they were artificially kept down. The average level of rents in the United Kingdom went up in the three years 1956, 1957 and 1958 by 6, 11 and 7 per cent. respectively. In the Netherlands after remaining stable in 1956, rents rose by 22 per cent. in 1957 and then stayed at about the same level again in 1958, giving the impression that time is being allowed between increases for the shock to wear off. In France the

Rise in the components of the cost-of-living index,
1956, 1957 and 1958.

Countries	Years	Total index	Food	Rent	Light and fuel	Clothing
		In percentages				
France	1956	1.2	0.2	10.1	- 4.3	1.1
	1957	10.9	11.1	8.2	19.7	6.3
	1958	8.9	7.9	15.5	1.5	6.1
Germany	1956	1.8	1.7	1.7	3.1	1.0
	1957	3.5	4.2	0.8	3.0	5.1
	1958	0.8	0.0	1.7	4.3	1.0
Italy	1956	4.2	3.6	17.6	3.4	0.6
	1957	3.7	2.8	19.9	- 0.4	3.2
	1958	1.2	- 0.8	26.0	- 1.3	- 1.3
Netherlands	1956	3.7*	6.5	0.0	7.3	2.4
	1957	10.8*	6.1	22.2	5.3	1.2
	1958	- 0.8*	- 2.5	0.6	0.0	- 1.1
Norway	1956	4.9	4.4	3.3	9.8	2.2
	1957	2.0	0.0	7.3	1.3	4.3
	1958	6.5	12.0	4.5	- 2.5	1.4
Sweden	1956	3.6	1.3	0.7	18.7	0.0
	1957	4.2	3.2	7.4	1.9	2.5
	1958	2.7	3.1	2.8	0.0	1.6
Switzerland	1956	2.2	2.8	2.5	5.9	- 0.4
	1957	2.0	1.0	2.4	0.4	4.0
	1958	0.9	- 0.5	5.2	- 0.1	0.0
United Kingdom	1956	3.1	0.9	5.9	6.0	1.6
	1957	4.6	3.6	11.5	9.2	1.8
	1958	1.8	3.0	7.0	0.9	- 0.3
Canada	1956	3.0	5.0	1.7	4.7	- 0.9
	1957	2.6	2.0	1.9	- 0.1	1.1
	1958	2.2	2.4	1.5	- 1.1	0.4
United States	1956	2.9	3.1	2.4	3.4	2.2
	1957	3.1	2.8	1.9	1.6	0.6
	1958	1.7	2.2	1.5	1.6	- 0.1

* Excluding taxes.

increases in the three years, at 10, 8 and 15½ per cent. respectively, were very substantial. The percentage rise was even greater in Italy, where it amounted to 18, 20 and 26 per cent. respectively. In this process of readaptation the most drastic increases have, of course, occurred in the countries where rents have been frozen longest and at particularly low levels.

Costs of heating and lighting developed in 1958 rather favourably for consumers in all countries except Germany. In four out of the ten countries under consideration these costs actually declined compared with 1957, and in two others they remained unchanged. Clothing prices remained more or less stable or even fell slightly everywhere except in France, and there the rise, though appreciable, was somewhat smaller than in the preceding year.

The present subdivisions of consumer-price indexes rarely give much direct information as to what has happened to services. In the period 1950-58 the cost of services rose in the United Kingdom by 60 per cent., compared with a rise of 49 per cent. in the total index, while for the United

States the corresponding figures are 38 and 22 per cent. In Belgium the cost of services rose by 17.6 per cent. in the period 1953-58, compared with a rise of 8.8 per cent. in the total index; in 1958 and the first quarter of 1959 the total index remained practically unchanged, but the cost of services increased by 4 per cent. in 1958 and by 5 per cent. in the whole fifteen-month period. In France in the six years 1953-58, when consumer prices increased by 22 per cent., the cost of services went up by as much as 41 per cent., and in the first quarter of 1959 this development was accentuated, bringing the increases to 27 and 51 per cent. respectively.

It may therefore be generally concluded that — as was very clearly the case in the United States — the cost of services again in 1958, as in the immediately preceding years, rose more than did the price of the other components of the cost-of-living index. This is doubtless due not only to the wage-induced part of the rise in costs — wage costs in sectors with less possibilities of increasing productivity tending to align themselves with those in the sectors where productivity has been stepped up the most — but also to a certain catching-up of leeway from earlier years. For in the war years and, in many cases, also in the post-war years up to about the time of the Korean conflict the cost of services, from the consumer's point of view, and income from services, from the point of view of those engaged in that sector, lagged considerably behind the general levels, particularly those in the manufacturing and mining industries. Since then, however, services, too, have been benefiting from the readjustment of previously depressed prices. And as, in the western countries, services account for between one-third and one-half of the national income, this upward movement has naturally been making itself strongly felt in the budgets of consumers.

In the case of wages the steep upward curve of the preceding years flattened out appreciably, although the rise was nowhere completely checked or actually reversed; only in a very few instances did the increase in wages in 1958 exceed that in the previous year. In one country (Switzerland) the rise was the same in both years; and in all other cases the relative increase in wage income, even in money terms, was smaller than in 1957.

It is revealing to compare (a) the changes in wage rates with the changes in earnings and (b) the nominal changes with those in real terms.

The rise in wage rates was accentuated in 1958 only in Austria and Italy, and the rise in earnings only in Finland, Norway and the United States; in all other countries the increase was smaller than in the previous year. Earnings, however — and this is particularly important — show two significant tendencies.

Firstly, in most of the countries included in the following table workers' nominal earnings showed a smaller increase — in some cases considerably smaller — than in the previous year. Secondly, whereas in 1957, when boom conditions still prevailed, earnings had risen appreciably more than wage rates, in 1958 — owing, *inter alia*, to a reduction in hours worked, and especially in overtime — the rise in earnings was smaller than that in wage

Nominal and real wages.*

Countries	Items	Nominal				Real	
		Percentage increase during				1958	1956-58
		1956	1957	1958	1956-58		
Austria	Rates	4.9	0.6	2.2	7.8	0.6	0.7
	Earnings	3.4	6.9	2.3	13.1	0.7	5.7
Belgium	Rates	13.1	6.6	2.3	23.4	1.9	16.6
	Earnings	11.1	7.9	2.2	22.4	2.0	15.0
Denmark	Rates	8.8	3.4	0.7	13.2	- 0.7	5.8
	Earnings	9.1	3.3	0.7	13.5	- 0.7	6.1
Finland	Rates	.	.	.	.	.	.
	Earnings	12.4	3.1	6.1	23.0	2.1	- 6.4
France	Rates	6.4	11.6	6.3	28.7	- 0.6	6.0
	Earnings	.	.	.	.	.	.
Germany	Rates	7.4	6.2	5.2	19.9	4.4	12.8
	Earnings	8.1	10.1	4.7	24.5	3.9	17.1
Italy	Rates	7.4	2.5	5.5	16.2	4.2	6.3
	Earnings	8.5	3.8	1.9	14.7	- 0.1	4.1
Netherlands	Rates	5.3	11.3	3.4	21.1	4.2	6.2
	Earnings	8.3	13.0	2.0	24.8	1.2	7.7
Norway	Rates	.	.	.	.	.	.
	Earnings	11.5	2.8	6.4	21.9	- 0.1	6.9
Sweden	Rates	.	.	.	.	.	.
	Earnings	9.2	5.0	4.5	19.8	1.8	8.0
Switzerland	Rates	3.7	2.7	2.7	9.4	1.8	4.0
	Earnings	3.7	5.1	2.8	12.9	3.7	7.3
United Kingdom	Rates	7.8	5.4	3.4	17.5	1.6	6.9
	Earnings	7.7	6.3	3.2	18.1	1.4	7.5
Canada	Rates	.	.	.	.	.	.
	Earnings	7.1	5.1	3.0	15.9	0.8	7.4
United States	Rates	.	.	.	.	.	.
	Earnings	6.2	2.4	4.3	13.5	2.6	5.3

* For 1958 up to the last month available.

rates in Germany, Italy, the Netherlands and the United Kingdom, while in Austria, Belgium, Denmark and Switzerland both rose to about the same extent.

The increase in real wage rates in the last three years taken as a whole was largest in Belgium and Germany, where they rose by 17 and 13 per cent. respectively. In the case of Germany, the increase in real earnings (17 per cent.) was substantially greater than that in real rates. In the other countries the extent of the real increase in wage rates, though still appreciable, was much smaller than in the above two cases, varying from 0.7 per cent. in the case of Austria to 6.9 per cent. in the case of the United Kingdom. The most unfavourable development for the wage-earners took place in Finland, where net earnings in real terms (figures for wage rates are not available) declined by 6.4 per cent. over the three-year period, the increase in 1958 having been nowhere near sufficient to make up for the fall which had occurred in 1956 and 1957. A striking feature of the development in 1958 is that, while earnings increased in nominal terms everywhere, real earnings declined in Denmark and, very slightly, also in Italy and Norway.

In Italy, where the level of employment in industry remained virtually unchanged, real wage rates further increased in 1958. Late in April 1959 the basic salaries of the 1.6 million state employees and the pensions of the 470,000 retired civil servants were raised, on an average, by 6 per cent., and family allowances by about the same total amount — the effect being a levelling-out of incomes. The additional annual expenditure entailed by these measures is estimated at nearly Lit. 100 milliard and is to be covered by increases in taxation of, for the most part, non-essential consumer goods. A significant step was the reintroduction of a sliding scale, whereby salaries are to be adjusted annually to the level of the cost-of-living index. It is worthy of note that this reintroduction of the sliding scale in Italy nearly coincided with the abolition of indexation in France.

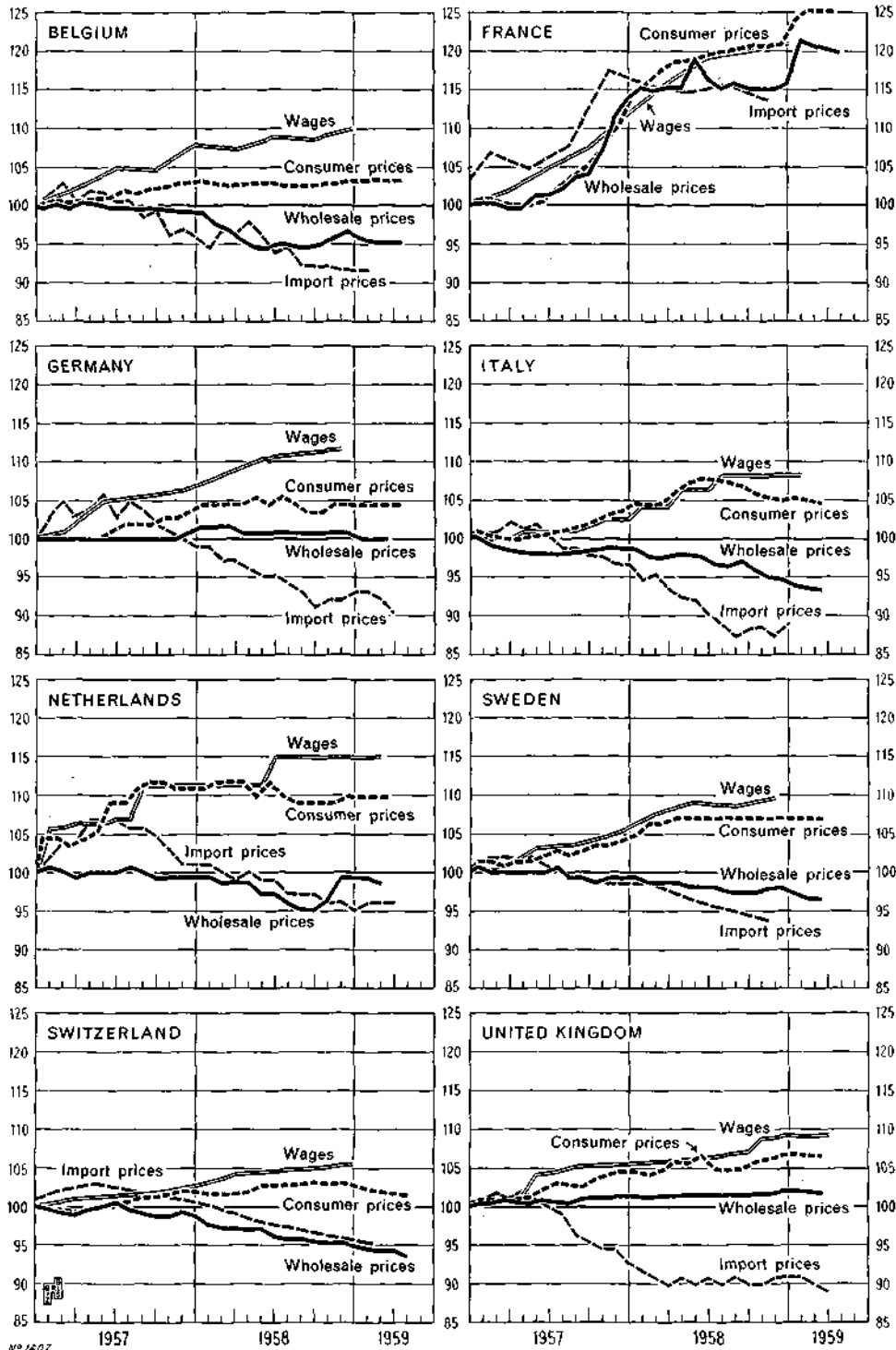
To sum up, it can be said that in 1958, partly owing to a decline in consumer prices, real wages continued to increase in a number of countries. The slackening of economic expansion led, however, to a slowing-down of the increase in real wage rates and, even more, of the increase in real earnings.

In 1957 the level of wholesale prices began to fall in half the countries under review, whereas in the preceding year it had risen in all countries, in some cases considerably. In 1958 the trend which began in 1957 continued in a somewhat abated form. In eight of the countries listed there were further declines, in a few instances even greater than in the previous year. In another three countries wholesale prices remained stable, while in others there were still increases, though only minor ones; only in Austria, Portugal and Canada could the price situation be said to have deteriorated — and even then only slightly — in comparison with 1957. Thus in the great majority of countries there was an improvement in relation to the previous year, either in the form of an actual price decline or, in cases in which prices went up, of a distinctly smaller rise than before. The countries in which the trend of prices was most striking were Finland, France and Spain, in all of which wholesale prices had risen in 1957 by nearly 14 per cent. In Spain last year's price rise was only half that of the preceding year and in the first two months of 1959 wholesale prices actually fell. France achieved comparative price stability in 1958 with a rise of only 1.5 per cent., and in Finland the earlier sharp upward movement of prices gave way to a slight downward tendency, which has continued in 1959.

It is worth noting that it was in those countries which, owing to their freer market conditions, are very often ahead of the others as regards changes in the economic trend and the pattern of prices, notably Belgium, the German Federal Republic, Italy, the Netherlands and Switzerland, that price declines occurred in the first quarter of 1959.

The divergence between the movements of the wholesale prices of manufactured products and those of the prices of basic materials is well illustrated by what has happened in the United Kingdom. From 1957 up to the present wholesale prices of manufactured products have kept more or less stable (+1.8 per cent.), while the prices of basic materials and fuel

Prices and wages, 1957-59.
Indexes: December 1956 = 100.



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used in manufacturing industry fell by 10 per cent. in 1957 and have remained low, at around that level, ever since.

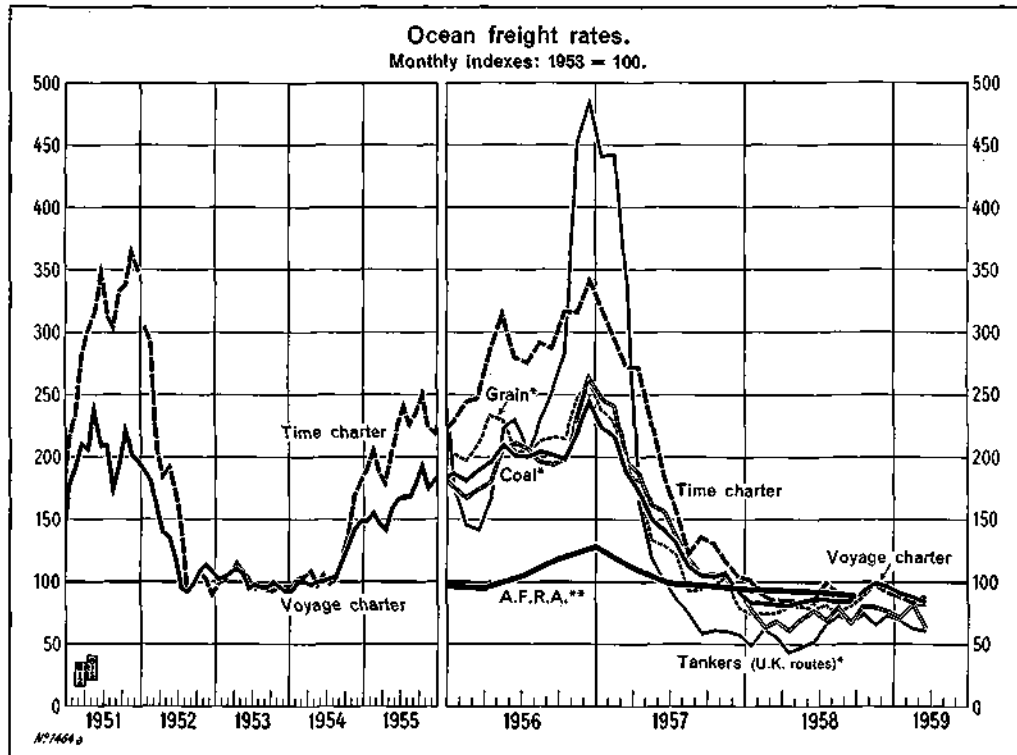
As can be seen from the graph, similar developments took place in other countries. A comparison between the movement of consumer, wholesale and import prices and wage rates in the various countries shows a similar tendency almost everywhere, the main exception being France. In most cases import prices fell, wholesale prices remained approximately stable or declined, consumer prices rose and wage rates rose even more. The wholesale prices shown in this graph for Germany are producer prices and those for the United Kingdom apply to manufactured goods. This explains the difference of trend in comparison with the other countries.

In view of the fact that the European economies are so intimately connected, through foreign trade, with the world markets, the movement of wholesale prices is closely bound up with that of import prices. Nearly half the goods (in terms of weighting) included in the Swiss wholesale-price index, for instance, are of foreign origin. It is understandable, therefore, that fluctuations in the price of goods supplied from abroad are swiftly and sharply reflected in the general level of wholesale prices. The average level of import prices in fact declined markedly in 1958 in all the countries under review, with the exception of Spain, the extent of the decline ranging from 2½ per cent. in the case of Portugal to 10 per cent. in that of Greece. Taking the weighted average, this fall may be put at, say, 5 per cent. for the calendar year 1958, or, as the case may be, from the fourth quarter of 1957 to the fourth quarter of 1958. This is also roughly the extent to which import prices fell in Switzerland and the United States last year.

These reductions in import prices not only compensated but actually more than made up for the still continuing increases in wages over the same period. In this sense the fall in raw-material prices had, on balance, a favourable effect on the income of wage-earners.

Ocean freight rates have undergone a sharp fall from the peak reached as a result of speculation following the Suez affair. This trend is reflected in the accompanying graph. For some years now the freight market has been in a state of marked depression.

This is mainly due to the slackening in demand for some of the more bulky raw materials as a result of the decline in economic activity and in foreign trade and the running-down of raw-material stocks after the overstocking during the Suez crisis. An indication of the decline in the demand for shipping space is given by the fact that the amount of coal carried by trampers fell from 48.3 million deadweight tons in 1956 to only 9.8 million tons in 1958, i.e. by four-fifths. At the same time, however, owing to the completion of existing contracts, the building of new vessels — which, moreover, will travel faster and will thus, in effect, still further increase (through the higher "velocity of circulation") the available shipping space — is continuing at almost the same rate as before. In addition, the increasing



* Voyage-charter rates. ** Weighted average of time and voyage-charter rates.

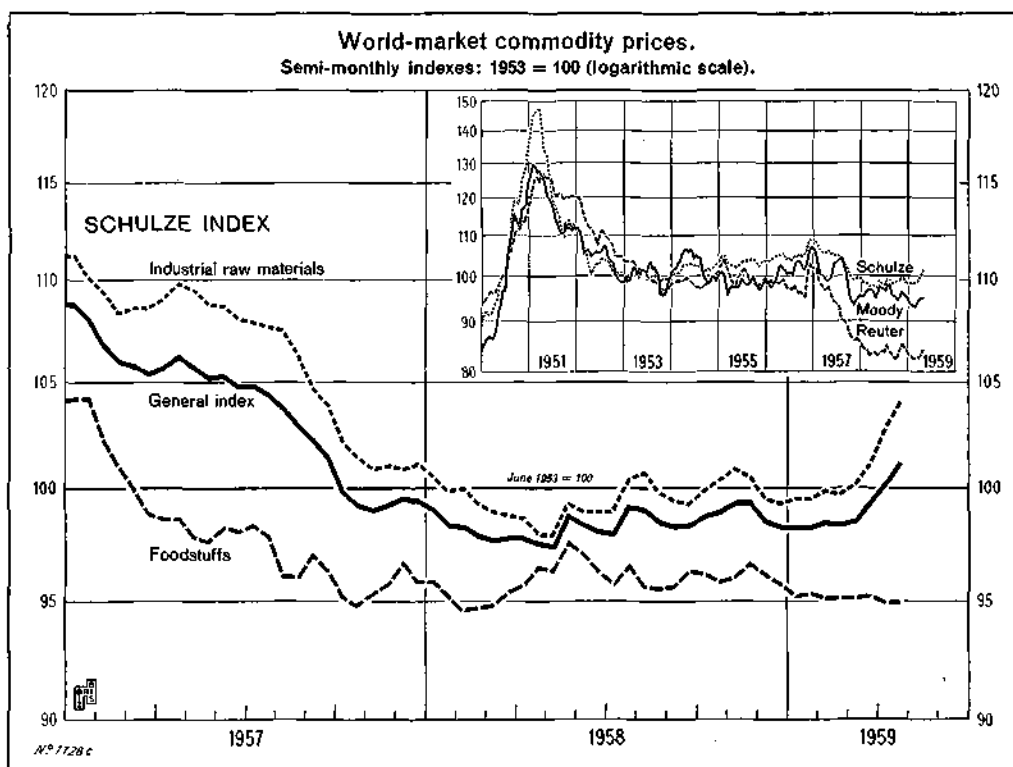
construction of pipelines reduces, in the case of oil transport, the need for tankers. In view of all these circumstances the outlook for the freight market may be said to be rather unfavourable.

* * *

World-market commodity prices, after having fallen sharply in 1957, a year of violent price movements, recovered somewhat during 1958 and became fairly stable, though at a considerably lower level than before. They did not move far above or below the average for the year and the gap between the "highs" and the "lows" was extremely narrow. In spite of differences in their composition, the available indexes of commodity prices in the two main trading countries (the United States and the United Kingdom) and on world markets display remarkably similar tendencies, none of the "highs" for 1958 being more than 6 per cent. above the corresponding "low" and one index showing a range of fluctuation of only 2 per cent.

World-market commodity prices: Range of fluctuation of indexes (high above low) in 1957 and 1958.

Years	Moody	Reuter	Economist	Financial Times	Schulze	D.I.W.
	in percentages					
1957	15.6	20.1	15.1	11.0	10.0	8.7
1958	4.9	4.7	6.0	5.9	2.0	5.5



During the year the trend of the overall indexes was made smoother by two scissor movements in the prices of industrial raw materials and foodstuffs. While the overall level of world-market commodity prices as reflected by Schulze's Index fell in 1958 by 1.2 per cent., prices of foodstuffs — with a decline of only 0.1 per cent. — remained practically unchanged and prices of industrial raw materials went down by 1.8 per cent. As may be seen from the graph, however, prices of industrial raw materials became much firmer from the second quarter of 1958 onwards, whereas, mainly as a result of the good crops, prices of agricultural products tended to weaken. This trend became more pronounced in the first quarter of 1959, so that the movement of these two sets of prices in relation to one another was then the reverse of that suggested by a comparison of the extent of their respective declines during 1958.

The strengthening of the world commodity markets during 1958 is evidenced by the fact that, while in 1957 all the sub-groups in Schulze's Index took part in the decline, last year seven out of the eleven sub-groups showed a rise in prices. In the first quarter of 1959, on balance, prices recovered the limited amount of ground they had lost in 1958, a further fall (of 0.6 per cent.) in food prices having been compensated by the continued rise in industrial raw-material prices. Since the start of the recovery in the second quarter of 1958 the price levels of several commodity groups, including hides and skins, rubber and non-ferrous metals, have risen sharply.

World-market commodity prices.

Indexes	Percentage changes during			
	1956	1957	1958	1959 1st quarter
Schulze				
Cereals	+ 4.8	- 8.1	- 1.6	+ 1.2
Beverages	+ 21.4	- 9.5	- 6.3	- 5.1
Meat	+ 5.9	- 6.3	+ 9.2	- 2.0
Fats	- 12.9	- 2.1	+ 2.3	- 4.8
Oilseeds	+ 18.4	- 9.0	+ 0.9	+ 4.6
Hides and skins	- 9.8	- 3.5	+ 18.1	+ 17.4
Textiles	+ 17.4	- 8.3	- 9.9	+ 0.6
Coal	+ 3.0	- 1.3	- 1.9	- 0.5
Iron and steel	+ 7.1	- 6.3	+ 1.2	+ 0.0
Non-ferrous metals	- 13.1	- 18.5	+ 10.1	+ 4.1
Rubber	- 15.0	- 22.8	+ 1.7	+ 7.8
Foodstuffs	+ 7.5	- 7.9	- 0.1	- 0.6
Industrial raw materials	+ 4.1	- 9.1	- 1.8	+ 1.8
Total	+ 5.1	- 8.7	- 1.2	+ 1.1
Moody	+ 8.7	- 11.5	- 0.5	+ 0.4
Reuter	+ 3.0	- 15.8	- 2.3	- 1.3
Financial Times	- 2.6	- 9.1	- 2.5	+ 4.5

Of special interest among the causes of the movement of the prices of hides and skins are the reduction in slaughterings in the main producing countries, namely Argentina and the United States, due to a fall in the cattle population, and, on the demand side, the purchases by the eastern European countries, China and Japan. Furthermore, even the United States, until recently the second-largest producer of hides and skins, supplying in particular the European leather industry, has of late been trying to buy undressed hides in the South American markets. This swing to a sellers' market was reflected in a price increase of 46 per cent. between the end of 1958 and April 1959.

In the case of rubber active buying by eastern European countries made up for the weakness of demand from western countries. With the revival of western demand in the early months of the current year, prices have climbed by 13 per cent. in less than three months. The increase in the prices of non-ferrous metals appears to have been largely due to the influence of price and production policies in controlled markets and not so much to more basic changes in the relationship of available resources to demand. The maintenance of artificially high prices was made possible in the case of tin by export restrictions (which will be discussed later) and in the case of copper by voluntary cuts in output by the leading producers (and also, to some extent, by the strikes which occurred in this industry during the period under review).

Prices for natural textile fibres and for steel continued to reflect the weakness of the intermediate demand for stocks in the textile and engineering industries and of the final demand for the products of these industries. The critical situation in the energy sector was also reflected in the trend of coal and oil prices.

Changes in the prices of certain major commodities.

Commodities	Markets	Percentage changes during			
		1956	1957	1958	1959 1st quarter
Materials of industrial origin					
Mineral oil	Bradford, Pa.	+ 21.6	- 0.6	- 15.1	+ 2.5
Mineral oil	Venezuela	± 0.0	+ 14.2	± 0.0	- 4.9
Coal	United States	+ 14.9	+ 2.3	- 5.0	+ 1.1
Copper	New York	- 24.1	- 33.8	+ 20.6	+ 11.7
Tin	London	- 2.2	- 9.4	+ 3.5	+ 3.1
Tin	New York	- 3.1	- 11.5	+ 7.1	+ 4.2
Lead	New York	+ 2.8	- 18.8	± 0.0	- 12.2
Zinc	St. Louis	+ 3.8	- 25.9	+ 15.0	- 4.3
Steel bars	Antwerp	+ 7.6	+ 4.4	- 23.7	- 3.2
Steel (section)	Pittsburgh	+ 8.7	+ 5.6	+ 4.2	± 0.0
Steel scrap	Pittsburgh	+ 43.2	- 50.7	+ 28.5	- 0.4
Materials of agricultural origin					
Wool	Melbourne	+ 33.3	- 16.4	- 26.9	- 0.8
Wool	New York	+ 26.0	- 18.2	- 17.1	- 1.2
Cotton	New York	- 1.1	+ 5.6	- 1.9	- 0.2
Cotton	Alexandria	+ 50.4	- 8.6	- 11.0	- 1.9
Jute	London	+ 45.8	- 12.8	- 9.5	- 0.5
Sisal	London	- 8.5	- 5.5	+ 9.2	+ 7.0
Skins	Chicago	- 13.3	- 13.9	+ 27.6	+ 28.4
Rubber	Singapore	- 12.9	- 26.7	+ 1.1	+ 7.5
Rubber	New York	- 23.8	- 21.1	+ 4.0	+ 4.1
Foodstuffs					
Wheat	Winnipeg	- 1.7	- 3.6	± 0.0	+ 4.3
Maize	New York	+ 9.4	- 7.8	- 1.1	+ 2.4
Sugar	New York	+ 50.2	- 17.0	- 7.8	- 15.9
Cocoa	New York	- 18.3	+ 52.8	+ 2.6	- 7.8
Coffee	New York	+ 13.0	- 7.2	- 24.4	- 11.1
Copra	London	+ 4.6	- 2.0	+ 33.4	+ 3.2
Cotton oil	New York	+ 19.3	+ 4.4	- 21.9	- 0.2
Lard	New York	+ 26.6	- 20.7	- 3.6	- 4.9
Pigs	Chicago	+ 45.3	+ 10.8	+ 2.5	- 9.6

While cyclical changes in overall levels of activity exert a far-reaching influence on the prices of raw materials for non-food industries, prices of foodstuffs are more dependent on changes in the conditions of supply, i.e. chiefly variations in crop results, which are also an important factor determining the course of prices for animal products, since variations in the supply of fodder influence the decisions of cattle-breeders.

The fluctuations in foodstuff prices that result from changes in supply conditions are as wide as those in raw-material prices caused by cyclical swings in demand. This may be seen from the above table, which shows the changes in the prices of a number of commodities during the three calendar years 1956 to 1958 and the first quarter of 1959. The considerable fluctuations in the prices of steel scrap, copper, rubber, wool and cotton are matched by variations of the same order of magnitude in the prices of several foodstuffs, including sugar, cocoa, coffee and lard.

Even in the case of raw materials, however, a number of specific factors are always at work, determining the direction and range of price movements. In order that these factors may be pointed out, a short review of individual commodity markets is necessary.

Among the non-ferrous metals, the position of tin has long been regarded as critical, its history having been characterised by limitations of production, particularly by means of restrictive international agreements designed to force up prices by curtailing supplies. As a corollary of the restrictive policies pursued (and also because of substitution), tin was until 1957 the only raw material of importance consumption of which had declined (having actually been lower then than in the late twenties). Consequently, the production of tin fell from the peacetime peak of 205,000 tons reached in 1937 to only 170,000 tons in 1958, whereas output of all other raw materials has risen markedly in the fifties in relation both to earlier post-war years and to 1937. Tin-pricing policies, and the related production policies, have caused this metal to lose some ground to its competitors — in particular aluminium.

Since 15th December 1957 the International Tin Council, in accordance with the International Tin Agreement, has exercised control over the tin exports of its members, the six most important western producing countries. Until the end of September 1958 these exports were cut by as much as 40 per cent. compared with actual exports in the base year ended 30th September 1957; in the fourth quarter of 1958 the cuts were increased to 48 per cent. One of the supply factors which had influenced the International Tin Council in deciding on the extent of these export cuts was the U.S.S.R.'s sales of tin to western markets. These exports consisted of high-grade tin, corresponding to the London contract, the U.S.S.R.'s domestic requirements being met by means of even larger imports of lower-grade Chinese tin; thus, in exporting to the West, the U.S.S.R. was, in a way, a re-exporter. The U.S.S.R.'s exports approximately doubled in 1958 compared with 1957, rising to 17,000 tons, and this led the British and Dutch Governments to impose import restrictions on Soviet tin. On 26th January 1959, however, an agreement was reached with the U.S.S.R. limiting Soviet exports of tin to the West to 13,500 tons per annum; accordingly, and as a result of other market developments, the permitted export quota of the agreement countries for the second quarter of 1959 was raised from 20,000 to 23,000 tons, which means that the extent of the cut was brought back to 40 per cent.

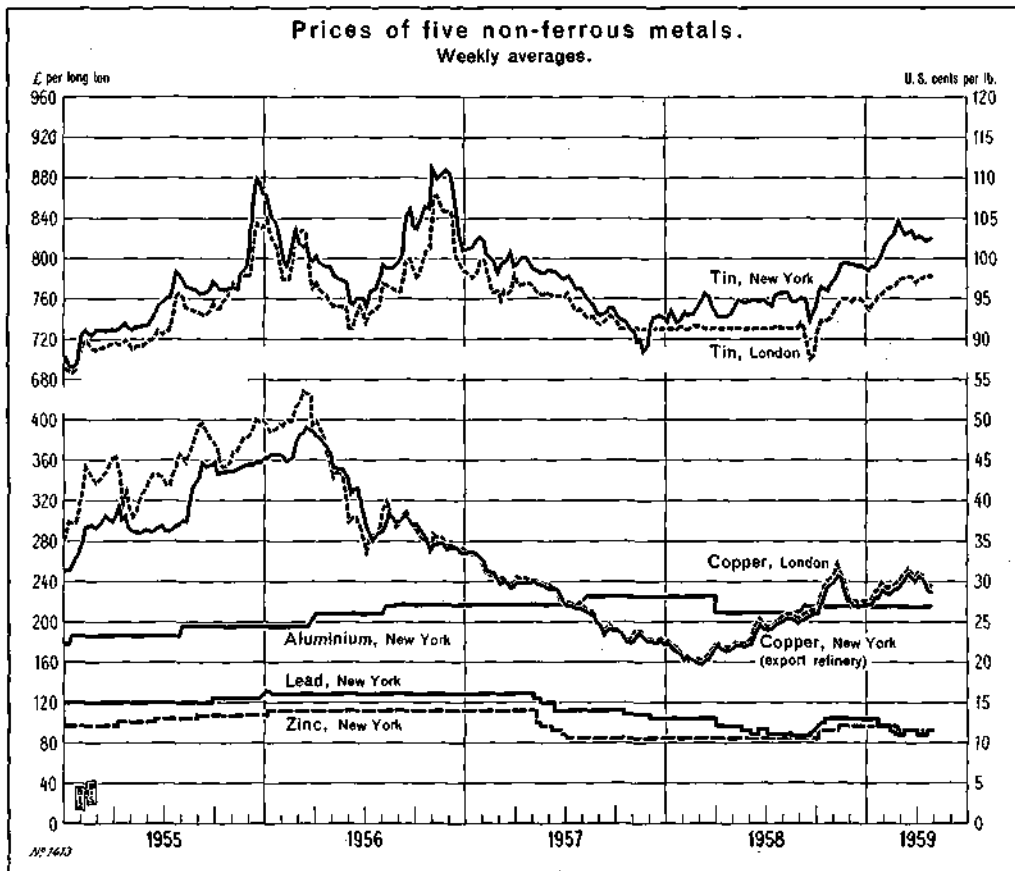
During the first three quarters of 1958 the purchases of the tin pool made it possible to keep the London cash price in the vicinity of the lower intervention point of £730 per long ton (without, however, supporting the London forward price, or tin prices in other markets).^{*} But the pressure on the market, accentuated by the economic recession on the one hand and by exports of tin from the U.S.S.R. on the other, proved too strong. On 18th September 1958, the tin pool's funds being exhausted, the large-scale support purchases had to be stopped and within a few hours the price fell from £730 to £640 per ton. At that time the stocks of the tin pool amounted to 28,000 long tons. Soon, as £640 per ton was too low a price to attract adequate supplies, the market began to recover from the shock and on 3rd October the price was back again at its former level; the highest price

^{*} Under the agreement the ceiling price for tin is fixed at £880 per ton, and £780 per ton is the point below which the buffer-stock manager may buy tin and above which he may sell it.

of the year — £765 — was reached in November. Thus in the last quarter of 1958, owing to the continued low level of supplies and a certain improvement in demand in the United States, the price decline was made good. The position was further strengthened in the first few months of the current year. At about £780 — the level at which the buffer-stock manager can and does sell tin and which may be thought to correspond to the intentions of the International Tin Council — the price is now approximately the same as it was in the spring of 1957.

The development of the copper market during 1958 was less eventful. Copper prices, after declining to their lowest level for the year — £160 per long ton — on 28th February 1958, recovered again thereafter, reaching their highest point of almost £260 (60 per cent. above the February low) in November. By the end of 1958 prices had fallen again to around £220; early in 1959, however, the London quotation rose, after irregular fluctuations, to £250, but at the time of writing it was down again to around £230.

The shortage of copper which was alleged to prevail last autumn proved to be non-existent. The fact that, in spite of this, the price level was maintained and even rose was partly due to the occurrence of strikes in this industry. Moreover, there has been a certain revival of demand. But there



is no sign of a shortage of supplies; productive capacity both in the mines and in the refineries has been so greatly developed and is also so elastic that output can be quickly adapted to any ups or downs in demand. The market was further influenced in 1958 by the liquidation of part of the United Kingdom's stockpile (17,000 long tons) and the decision taken in August to lift the embargo on trade in copper with the eastern European countries. On the other hand, as from the middle of 1958 the tariff on copper imports, at 1.7 cents per lb., was reimposed in the United States after having been suspended for several years.

Trading in aluminium began to slacken as early as the autumn of 1956 and the downward trend has still not been reversed. Productive capacity has for some years been considerably greater than consumption, especially in the United States and Canada, although at present the amount of surplus production is beginning to decline. In 1958 world production of crude aluminium continued to rise, increasing from 3.4 to 3.5 million tons, or by about 5 per cent. compared with 1957. On 1st April 1958, because of the weakness of the market, the gap between production and consumption having widened, Alcan of Canada lowered its price for primary aluminium by 2 cents to 24 cents per lb. — the first price drop since 1941 — which is only 20 per cent. above the pre-war price in an industry with a record for stable prices. As a result, producers in the United States reduced their price to the same level, but raised it again on 1st August 1958 to 24.7 cents. In Italy and Germany prices were lowered correspondingly, but in France, in connection with the currency devaluation, they were raised. The Swiss price remained unchanged, as it has done for the last two and a half years.

In the western world the consumption of mineral oil has remained well behind production. In 1958 world production rose from 901 to 924 million tons. Competition between U.S. and Middle East products grew sharper and crude-oil prices in the United States began to fall under the pressure of heavy stocks and declining prices for derivatives. At the beginning of 1959 this tendency spread from western Texas, the most important producing area in the United States, to the Caribbean and the Middle East. On 5th February the price of Texas crude oil was cut by between 7 cents and 28 cents per barrel, and the next day the prices for Venezuelan oil were reduced by 5 cents for medium crudes and by up to 15 cents for light crudes. Since prices for heavy oils had already been cut in 1958, the general level of prices in the United States and Venezuela, though still higher than before the Suez crisis, was then back to where it had been two years earlier. Prices for Middle East oils soon followed suit; on 13th February they were reduced, on an average, by 18 cents per barrel, or 7½-10 per cent., which brought them down to their lowest level since June 1953. The leading companies in the Middle East clearly intended not merely to keep their price cuts in line with those in the United States and Venezuela but to increase the traditional differential between Middle East and western hemisphere prices and to free themselves from the former link with U.S. prices, in order to

create outlets for the continually increasing production in that area. The Suez crisis had caused a rise in prices for Caribbean oil and the companies in the Middle East had increased their prices by only half as much, i.e. by 13 cents per barrel. There have naturally been further moves in this struggle. The cuts made in Venezuela on 6th February were followed on 4th April 1959 by a general reduction of about 3 per cent. in crude-oil prices. With this fresh decrease the prices of certain qualities have reached and even gone below the pre-Suez level, while those of others (the lighter types) are still some 2 per cent. above it.

A further result of this price war was the imposition by the United States on 10th March 1959 of quotas for mineral-oil imports. (As in the case of the zinc and lead quotas introduced on 22nd September 1958, limiting imports to 80 per cent. of average imports in 1953-57, this measure was justified on grounds of national security.) The former system of "voluntary" import restrictions introduced in mid-1957 had proved inadequate; both domestic production and domestic prices had continued to fall. The import quota for crude oil was reduced by 20 per cent. to 940,000 barrels per day and that for derivatives was fixed at the 1957 level, i.e. about 540,000 barrels per day.

World production of crude petroleum.

Areas	1938	1951	1956	1957	1958
	in millions of metric tons				
<i>American continent</i>					
United States	164	304	353	353	328
Venezuela	28	91	129	145	138
Others	17	32	55	59	58
Total	209	427	537	557	524
<i>Europe, western</i>	1	5	10	12	12
<i>Arabian countries</i>	16	97	173	178	215
<i>Other western countries</i>	10	14	20	23	25
Total for western countries	236	543	740	770	776
<i>Eastern countries</i>	39	50	98	112	129
Grand total*	282	608	856	901	924

* Including shale oil and natural gasoline.

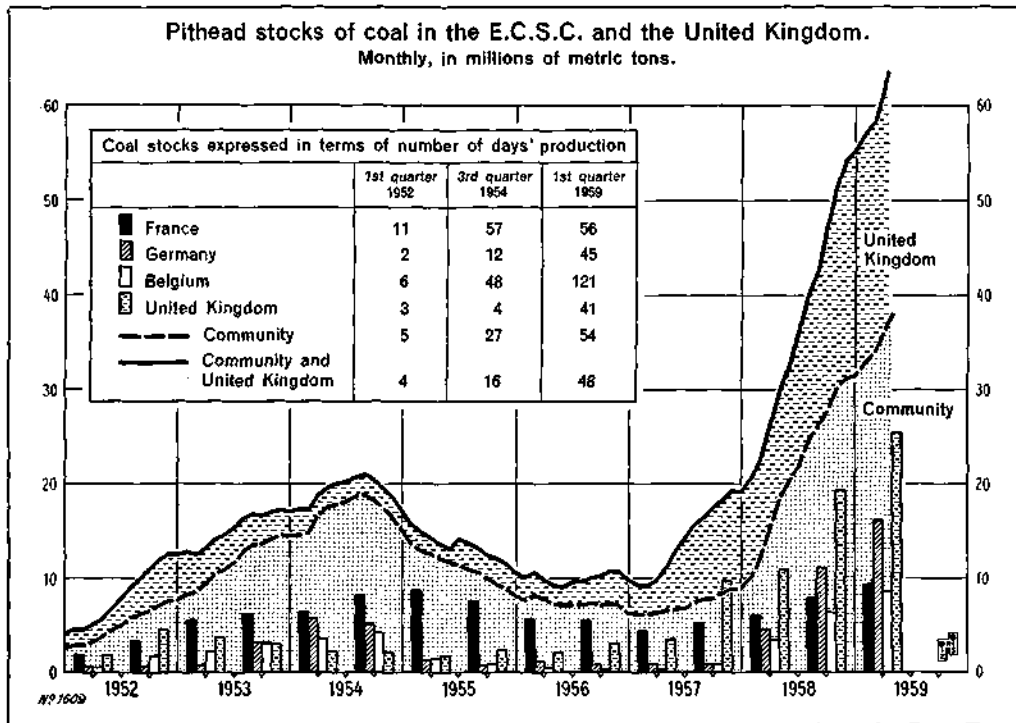
Refinery capacity, too, is in excess of demand. The limitation of imports by the United States will increase the pressure of supplies in non-protected markets. On these, the competitive power of Middle East oil is growing, quite apart from the advantage which the East derives, where sales in the western hemisphere are concerned, from the present low level of freight rates. While the oil regions are fighting for markets, other energy producers, in particular the coal mines, are also struggling for their share.

Within a relatively short period coal has changed from a product in short supply to a surplus product. Imports from the United States, which

a few years ago seemed to be saving the situation, have now become a — partly unavoidable — burden. The slowing-down of industrial expansion, combined with a growth in supplies not only of coal but even more of such competing products as oil and natural gas, and the increasing rationalisation of methods of obtaining energy in the form of thermo-electricity — all this has helped to bring about a critical situation. Productivity per man and per shift in the coal-mining industry has been improving steadily year by year, and continued to do so in 1958. It rose in the area of the European Coal and Steel Community as a whole by 21 per cent. between 1951 and March 1959, having increased by 21 per cent. in the Ruhr and by as much as 32 per cent. in France; in the last fifteen months alone the improvement in the E.C.S.C. countries and in the Ruhr has amounted to 8-10 per cent.; in the French mines, after previous spectacular rises, it has been 3 per cent. Since December 1958 production per shift in the German mines has exceeded that in the French mines, which since 1954 had headed the coal-productivity statistics.

All these factors have led to a crisis in the European coal market, i.e. in the Coal and Steel Community and the United Kingdom — a crisis which is clearly illustrated by the increase in pithead stocks. In the area of the Community the cutting-out of shifts was first resorted to at the beginning of 1958, and the resultant reduction in coal output in the subsequent fifteen months is estimated at nearly 10 million tons, including 3.4 million tons in the first quarter of 1959 and 1.5 million tons in March 1959 alone. Fully half this reduction is accounted for by the Ruhr. Since the beginning of the coal crisis, Belgian miners have been stood off for about thirty shifts and those in the Ruhr for thirteen; miners in other regions have been less affected, or not at all. The effects of the coal crisis on pithead stocks have also varied from country to country. Total producers' stocks of coal and coke in the countries of the Coal and Steel Community at the time of writing amounted to 35 million tons. Stocks in the Ruhr alone had risen by the end of March 1959 to over 15 million tons — a higher level than was reached even in the great depression of 1929-32. (The amount of money tied up in stocks is, of course, very large; for Germany alone the figure is put at about DM 1 milliard. Furthermore, the value of stocks is reduced by long storage owing to a diminution in their calorific value, though coke, which accounts for 40 per cent. of German stocks, is less affected.) More disquieting still has been the growth of coal surpluses in the United Kingdom, where pithead stocks, amounting to 25 million tons according to the latest figures, are nearing the limit of what is physically manageable. Total producers' stocks in western Europe have thus now reached the unprecedented level of over 60 million tons.

The present coal crisis is thus much more serious both in its extent and by its pattern than that which faced the coal industry in 1952-54, when British pithead stocks, including stocks of coke, never exceeded 5 million tons and those of the Community countries amounted to less than 19 million tons. The ratio of stocks to annual production (at present 465 million



tons) was just over 4 per cent. at the time of the last coal crisis but as much as 13 per cent. at the end of the first quarter of 1959.

Imports of coal by western European countries naturally contributed to the surplus. In 1958 such imports declined; but those from the United States still amounted to 31 million tons (compared with 45 million tons in the previous year), so that the long-term agreements concluded earlier for supplies of U.S. coal proved to be an unwelcome obligation. In Germany, in particular, the throttling-down of production was linked with spectacular measures to reduce these imports. During the year Germany discharged part of its import obligations by paying penalties — at an estimated cost, for the Ruhr area alone, of DM 300 million — and at the same time introduced a prohibitive customs tariff of DM 20 per ton for imports in excess of a free quota of 5 million tons. These measures apply to countries outside the Coal and Steel Community and are expected to reduce annual imports by 9 million tons. Nevertheless, the German coal-mining industry is still faced by acute difficulties. With the same object of easing the tension, the coal-mining industry introduced as from 1st May 1959, with the agreement of the trade unions, a forty-hour, five-day week with a corresponding gradual adjustment of wages (to be completed by 1st May 1961). The cost of this measure, to the benefit of the miners, is estimated at between DM 500 and 600 million.

It is to be expected that, as a result of this shortening of the working week, production will at first decline. (The fall has been estimated by the trade unions at 3 million tons per annum and by the mining companies themselves at 6 million tons or more.) The situation will thus undoubtedly be eased, and it is hoped to

World production of hard coal and crude steel.

Countries and groups of countries	Coal			Steel		
	1956	1957	1958	1956	1957	1958
	in millions of metric tons					
Coal and Steel Community	249	248	246	56.8	59.8	59.0
United Kingdom	226	227	219	21.0	22.1	19.9
Other western European countries	19	20	20	7.8	8.6	8.7
Total for western Europe	494	495	485	85.6	90.5	86.6
Eastern Europe	125	125	130	15.2	16.2	17.4
U.S.S.R.	304	327	350	48.6	51.0	54.9
United States	481	468	374	104.5	102.3	76.9
All other countries*	276	305	451	29.7	33.3	37.7
World total.	1,690	1,720	1,790	283.6	293.3	273.5

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

reduce or discontinue altogether the cutting-out of shifts as early as this autumn.

In view of the both structurally and cyclically weak market position, producers in the Ruhr reduced the prices of some types of coal as from 1st April 1959 (by between DM 2 and DM 3.50 per ton, or between 3.9 and 5.3 per cent., in the case of gas coal, and more in other cases). As from 17th March 1959, the Comptoir Belge des Charbons introduced price cuts amounting to between B.fcs. 20 and B.fcs. 75 per ton and, in addition, made some seasonal reductions ranging between B.fcs. 25 and B.fcs. 150 per ton. Recently the Polish Coal Syndicate lowered its selling prices in Finland by \$1 per ton (7½ per cent.) in order to strengthen its competitive position.

The coal situation in the eastern countries stands in contrast to the crisis in the western world. In the countries of western Europe, including the Coal and Steel Community and the United Kingdom, production fell slightly from 495 million tons in 1957 to 485 million tons in 1958; and in the United States there was a decline of almost 100 million tons — from 468 to 374 million tons — or nearly 20 per cent. World production of hard coal, however, rose in 1958 compared with 1957 from 1,720 to 1,790 million tons, or by 4 per cent., owing to the increase in the output of mines in eastern countries. The greatest expansion in output occurred in continental China, where — as part of the "great leap forward" — production was more than doubled, being increased from 130 to 270 million tons.

The critical situation which has developed in the coal sector in western Europe is naturally closely linked with the decline in activity in the steel industry, which is the main consumer of coke. This explains the striking increase in producers' stocks of coke.

Whereas in the eastern European countries and the U.S.S.R. steel output increased by 7½ per cent. in 1958, in western Europe it fell slightly

(by 4 per cent.), returning to its 1956 level. The most pronounced decline, however, took place in the United States, where output decreased from 102 million tons in 1957 to 77 million in 1958, i.e. by 25 per cent. After December 1956, when a record level of production (2,525,000 short tons in a week) was attained (then corresponding to an operating rate of 102.6 per cent.), the rate of production had fallen off rapidly and uninterruptedly, until in the week ended 26th April 1958 it amounted to only 1,270,000 short tons (or 47.1 per cent. of capacity) — about half the peak figure. Nevertheless, prices for steel were raised both in 1957 and in 1958. Since April 1958 a gradual recovery has been in progress, so that in the week ended 30th May 1959 output reached a new peak of 2,674,000 short tons (representing, on the basis of the increased capacity, an operating rate of 94.3 per cent.). In Europe, too, there was a revival of activity in the steel industry in the spring of 1959, both orders and output showing a distinct upward trend.

1958 was a year of excellent wheat harvests. In the western countries crops were $8\frac{1}{2}$ per cent. greater than in 1957; in the East the percentage increase was higher, so that the overall figure for world production was about 20 per cent. above the previous year's level. The pressure of stocks further increased. End-of-season stocks in the four main exporting countries amounted on 31st July 1957 to 48 million tons (equivalent to some 20 per cent. of world production), compared with a new crop, in the same countries, of 44 million tons. On 1st August 1958 carry-overs in the United States and Canada amounted to over 40 million tons, or twice as much as these countries' shipments during the crop year and even considerably more than world exports.

The trend of prices was smooth both in 1957 and in 1958. In the latter year the rise in prices amounted to only a few percentage points and the range of variation between maximum and minimum prices was remarkably

World production of wheat.

Countries or areas	1934-38	1948-52	1953-57	1957	1958
	annual figures (or averages), in millions of metric tons				
Four main exporting countries					
United States	19.5	31.1	27.5	25.9	39.8
Canada	7.2	13.5	12.8	10.1	10.0
Argentina	6.6	5.2	6.4	5.8	6.5
Australia	4.2	5.2	4.3	2.6	5.4
Total	37.5	55.0	51.0	44.4	61.7
Europe, including Turkey . .	46.2	46.1	55.0	62.2	59.7
U.S.S.R.	38.1	40.5	50.0	55.0	75.3
China	22.8	22.5	22.6	23.7	39.5
Others	22.9	16.7	31.4	32.7	28.8
World total	167.5	180.8	210.0	218.0	265.0

narrow. The New York price for U.S. No. 2 Hard Winter wheat ranged between \$2.275 per bushel (on 4th July) and \$2.4788 (on 26th September); the price quoted for Manitoba Class II, No. 1 Northern quality, c.i.f. London — a genuine market price — was even firmer and only fluctuated by about 5 per cent. between a low point of £27.1.3 per long ton on 26th September (curiously enough the day of the highest quotation for U.S. wheat) and a maximum of £28.6.0 on 5th December.

A new wheat agreement was concluded on 10th March 1959 covering the three years to 31st July 1962. The United Kingdom, the world's foremost wheat importer, which had remained aloof from the previous agreements in 1953 and 1956, rejoined the revised agreement. The number of exporting member countries was also increased; in addition to the former members, Italy, Spain and Mexico have now joined the agreement in the capacity of exporting countries. The former maximum price of Can.\$2 per bushel has been reduced to \$1.90; the minimum price of \$1.50 is to remain unchanged. The importing countries have now undertaken to buy from the exporting countries participating in the agreement a certain proportion of their current commercial imports, ranging from 30 per cent. to 100 per cent.; the percentages for thirteen out of the thirty countries concerned, including the United Kingdom, are between 80 and 90. (The former guaranteed import quotas applied only if prices exceeded or fell below certain fixed limits). The exporting countries, on the other hand, have undertaken, once the maximum price of \$1.90 is reached, to deliver to the importing countries the specified percentages of their average commercial sales to these countries in the preceding years.

The 1954 International Sugar Agreement expired at the end of 1958. In the autumn of 1958 the International Sugar Conference decided upon a new agreement, which, however, has still to be ratified. This differs in some points from former agreements, and more countries than before wish to participate. Its most useful clauses are those aiming at the expansion of consumption. At 51.5 million tons, production in the current season is estimated to be 74 per cent. above the pre-war level and 9 per cent. above the output in 1957-58. It has proved impossible to protect the market from excessive price fluctuations with the methods used up till now, i.e. the fixing of sales quotas, minimum reserves and price margins. From March to November 1958 the world price remained fairly steady, without major fluctuations, around 3.45 cents per lb., f.a.s. Cuba, but in December it rose to 3.72 cents, and then fell again at the beginning of 1959. In January 1959 the lower limit laid down by the former agreement (3.25 cents per lb.) was passed. The International Sugar Council tried to stabilise the price by reducing the exports of member countries by 1.15 million tons, thus cutting export quotas to 92½ per cent. of the basic amounts, while a further 10 per cent. was to be held back "so long as market conditions warrant". These measures, however, met with no success. At the beginning of April the price fell as low as 2.82 cents — the lowest level since 1944.

The coffee market is faced with similar difficulties. The restrictive practices resorted to are of very long standing, going back to the beginning of the century, and their efficacy has been even more doubtful than that of the measures taken in the case of sugar. In the last few years world production has grown to an unusual degree — from 2.1 million tons in 1950 to 3½ million tons in 1958 — and larger and larger surpluses have accumulated, although consumption, too, has risen to a certain extent. While in the last quarter of 1957 the price of coffee (Santos No. 4, New York) was still able to stage a slight recovery, in 1958 it fell steadily from about 56 cents at the beginning of the year to less than 42 cents at the end. This development has continued in 1959. On 1st October 1958 there came into force an International Coffee Agreement signed in Washington by all fifteen of the Latin American producing countries, which together account for about three-quarters of world production. The agreement provides for drastic cuts in exports, graded according to countries, by far the largest — 40 per cent. — applying to Brazil. The Brazilian Government plans to keep about 5 million bags of coffee (one-tenth of a year's world crop) off the market in the next two years. In December 1958 El Salvador temporarily stopped its sales (as Colombia had done earlier).

Producers of cocoa have so far been unable to work out a stabilisation scheme. The development of prices during 1958 was erratic. After a record harvest of nearly 900,000 tons in the 1956-57 season, there followed in 1957-58 a poor crop of only 770,000 tons. Prices immediately soared, subsequently subsiding again just as quickly. In the present season (1958-59) a harvest of nearly 860,000 tons is expected, i.e. 90,000 tons more than last year. At the end of May 1958 the price was forced up to nearly £400 per long ton, but by the beginning of October it had fallen to £270. After a temporary recovery in November, prices weakened again. At the time of writing they stood at about £285 per ton.

* * *

Common to all the raw materials dealt with above — and to others which have not been discussed in detail — is the constant and unceasing expansion in production, at least up to 1957, which has created a situation of over-supply in their markets. The output of no fewer than thirteen of the main raw materials included in the following table had increased to two, three or even five times — and in the exceptional case of aluminium to no less than seven times — that of the good pre-war year 1937. A further seventeen of the products listed in the table showed an expansion in production compared with the pre-war period. The exception was tin, production of which has for years been below the pre-war level. Apart from lead, tin and coal, the products with smaller percentage rises were all agricultural commodities and foodstuffs.

In 1958, however, for the first time since the war, there was a break in the seemingly permanent rise in production. Leaving aside agricultural products, the output of a number of commodities actually fell below the

previous year's level; thus, no less than fourteen of the commodities listed showed a reduction in output. Most striking is the decline of 9 per cent. in the output of synthetic textiles, which had been steadily expanding up to 1957. The production of nickel, steel, zinc, copper, lead and tin fell as a result of the slowing-down of economic activity and the reduction of stocks. Such increases in output as did occur last year are to be found mainly, owing to the good harvests, in the group of agricultural commodities and foodstuffs.

Estimates of world production of basic commodities.

Commodities	Units ¹	1937	1957	1958 (preliminary)	Change in 1958 in relation to		Western share in world production	
					1937	1957	1937	1958
					in percentages			
Aluminium ²	1000 tons	493	3,398	3,553	+ 621	+ 5	90	79
Natural gas	milliard m ³	80	390	410	+ 413	+ 5	94	91
Thermo-electricity . .	milliard kWh	264	1,240	1,300	+ 392	+ 5	78	76
Hydro-electricity . . .	milliard kWh	182	540	570	+ 213	+ 5	96	93
Crude oils	million tons	287	901	924	+ 222	+ 3	87	86
Cement	million tons	82	245	260	+ 217	+ 6	84	77
Man-made fibres . . .	1000 tons	835	2,875	2,630	+ 215	- 9	93	83
Rubber, natural	1000 tons	1,229	1,933	1,900	+ 181	- 2	100	100
Rubber, synthetic . . .	1000 tons	63	1,756	1,730		- 2		71
Brown coal	million tons	252	592	615	+ 144	+ 4	33	24
Soya beans	million tons	13 ³	24	27	+ 112	+ 12	19	63
Nickel ⁴	1000 tons	119	299	250	+ 110	- 16	97	80
Steel	million tons	136	293	274	+ 101	- 7	82	70
Manganese ore	million tons	6	13	12	+ 100	- 4	50	50
Rice, rough	million tons	147	212	285	+ 94	+ 34	66	47
Mercury	tons	4,590	8,255	8,300	+ 81	+ 1	91	84
Sugar	million tons	30	47	51	+ 74	+ 9	81	79
Zinc ²	1000 tons	1,636	2,966	2,805	+ 71	- 5	89	80
Tungsten (60%WO ₃) . .	1000 tons	39	66	63	+ 62	- 4	54	50
Wheat	million tons	165	218	265	+ 61	+ 22	55	52
Copper ⁵	1000 tons	2,534	4,162	3,970	+ 57	- 5	95	82
Hard fibres	1000 tons	529 ³	818	794	+ 50	- 3	100	100
Fats and oils ⁴	million tons	19 ³	28	28	+ 49	+ 1	73	74
Malze	million tons	126	167	184	+ 46	+ 10	91	80
Coffee, green	1000 tons	2,460	3,251	3,518	+ 43	+ 8	100	100
Lead ³	1000 tons	1,892	2,451	2,395	+ 42	- 2	95	81
Coal	million tons	1,291	1,720	1,790	+ 39	+ 4	84	58
Wool, greasy	1000 tons	1,724	2,268	2,263	+ 31	- 0	89	82
Jute	1000 tons	1,581	1,925	2,010	+ 27	+ 4	100	100
Cotton	1000 tons	8,312	9,059	10,009	+ 20	+ 10	81	63
Cocoa	1000 tons	751	896	770	+ 3	- 14	100	100
Tin ²	1000 tons	205	194	169	- 18	- 13	95	76

¹ Tons are metric tons.

⁴ Metal content of mine production.

² Smelter production.

⁵ Refinery production.

³ 1934-38 or 1935-39 average.

⁶ Oil equivalent.

Of particular interest is the fact that it is not hydro-electricity, but thermo-electricity, which has in the last few years, and also compared with the pre-war period, been far in the lead as regards expansion of output, its rate of increase having been one and a half times as high as that registered by hydro-electricity; since the pre-war period the production of thermo-electricity has almost quintupled, while that of hydro-electricity has approximately trebled. This divergent development is also a reflection of the technical progress made in the use of coal for generating electric power, which in turn has affected the demand for coal.

Reference must also be made to the regional distribution of raw-material production. The output figures just given refer to the world as a whole, disregarding differences in the development of production as between East and West. In this respect, however, some changes have taken place in the last few years. Apart from commodities which are produced, or harvested, only in the western hemisphere, there are only a few instances in which output has increased more in the last ten or twenty years in the West than in the East. On the whole, production in the eastern countries expanded faster, though the rates of growth differed from commodity to commodity; their share in the aggregate volume of world output of the products included in the table rose from about 20 per cent. in 1937 to about 30 per cent. in 1958. The needs of the eastern countries as regards raw materials are on the whole increasing more than those of the West.

* * *

During the three-year period 1956-58 the aggregate value, in terms of current prices, of the output of the raw materials here discussed continued to rise without interruption despite the decline in the prices of some commodities; in 1958, at about \$180 milliard, it was 6½ per cent. more than the 1957 figure and 21 per cent. more than that for 1955. At constant prices, i.e. in terms of volume, raw-material production increased by 18 per cent. over the whole period and by 8 per cent. in 1958; in the two decades 1937-58 it nearly doubled. The development in 1958 is partly explained by the fact that the reduction in the output of some commodities — mainly industrial raw materials — was compensated by the expansion in agricultural output due to last year's good harvests. Crops of foodstuffs and beverage commodities in fact increased by 22 per cent. in volume and (as the general level of their prices declined) by 19 per cent. in value. In the case of textiles and rubber, on the other hand, while the volume of output increased by 6 per cent., there was a fall of 3 per cent. in value in terms of current prices. The position of raw materials mainly produced by industrialised countries was, however, different; in their case there was an increase of 2 per cent. in value, while the volume remained practically unchanged. All this was naturally reflected in terms of trade.

V. World Trade and Payments.

From 1950 to 1957 the turnover of world trade (imports c.i.f. plus exports f.o.b.) increased at an average rate of 8.7 per cent. per annum. In 1958, however, there was a decline of 6 per cent. in relation to the previous year. The decrease was greatest in the case of the United States and Canada and smallest in the case of the continental O.E.E.C. countries.

Turnover of world trade.

Areas	World trade turnover					Annual rates of change		
	1937	1950	1956	1957	1958 ¹	1937-57	1950-57	1958 ¹
	in milliards of U.S. dollars					in percentages		
United Kingdom	8.0	13.6	20.2	21.1	20.0	+ 5.0	+ 6.5	- 5.2
Rest of the sterling area . . .	7.4	19.4	27.0	29.7	27.0	+ 7.0	+ 5.8	- 5.9
Total for the sterling area . .	15.4	33.0	47.2	49.8	47.0	+ 6.0	+ 6.1	- 5.6
Continental O.E.E.C. countries	15.9	29.7	58.1	64.5	62.1	+ 7.3	+ 11.7	- 3.7
United States ² and Canada . . .	9.0	26.2	44.5	47.0	43.1	+ 8.6	+ 8.6	- 8.5
Latin America	4.0	12.4	18.6	18.0	18.5	+ 7.8	+ 5.5	- 8.3
Other countries	7.1	15.8	26.5	30.0	28.0	+ 7.5	+ 9.7	- 6.7
World trade turnover	51.4	117.1	192.9	209.3	196.7	+ 7.3	+ 8.7	- 6.0

¹ Preliminary. ² Including military aid.

In absolute figures, the most important changes that occurred in 1958 were a decline of \$3.1 milliard (from \$46.4 to 43.3 milliard) in the imports of O.E.E.C. countries, a fall of \$2.9 milliard (from \$20.6 to 17.7 milliard) in U.S. exports (including military deliveries), and an estimated fall of about \$1.8 milliard in the exports of non-industrial countries.

The table on the next page showing the regional pattern of trade reveals the following main changes from 1957 to 1958.

United States: Exports to all areas fell, the decline of \$2.9 milliard being attributable to reductions of about the same magnitude in sales to O.E.E.C. countries, non-industrial areas, which make up the bulk of the group "Rest of the world", and Canada and Japan — in decreasing order of importance. Nearly one-half of the fall in exports to non-industrial areas was due to a fall in sales to Latin America.

O.E.E.C. countries: The total improvement of \$2.8 milliard in the balance of trade was primarily due to a fall of \$1.7 milliard in imports from the United States and one of nearly \$1 milliard in imports from non-industrial countries, there having been a slight decrease in exports.

Canada and Japan: The improvement in the balance of trade of these two countries taken together was almost wholly attributable to a decline in imports; these fell by \$1.8 milliard, of which over \$1 milliard was

Regional changes in the pattern of trade of industrial countries, 1957 to 1958.

Areas	Changes from 1957 to 1958			
	United States	O.E.E.C. countries	Canada and Japan	Total for industrial countries
	in millions of U.S. dollars			
Imports from (decrease +)				
United States	—	+ 1,650	+ 1,060	+ 2,710
O.E.E.C. countries	— 240	+ 480	+ 120	+ 360
Canada and Japan	+ 170	— 10	+ 40	+ 200
Total for industrial countries . . .	— 70	+ 2,120	+ 1,220	+ 3,270
Rest of the world	+ 260	+ 970	+ 550	+ 1,780
Total imports . . .	+ 190	+ 3,090	+ 1,770	+ 5,050
Exports to (decrease —)				
United States	—	+ 250	+ 10	+ 260
O.E.E.C. countries	— 1,170	— 650	+ 60	— 1,760
Canada and Japan	— 850	— 70	— 30	— 950
Total for industrial countries . . .	— 2,020	— 470	+ 40	— 2,450
Rest of the world	— 910	+ 210	— 90	— 790
Total exports . . .	— 2,930*	— 260	— 50	— 3,240
Balance with (improvement +)				
United States	—	+ 1,900	+ 1,070	+ 2,970
O.E.E.C. countries	— 1,410	— 170	+ 180	— 1,400
Canada and Japan	— 680	— 80	+ 10	— 750
Total for industrial countries . . .	— 2,090	+ 1,650	+ 1,260	+ 820
Rest of the world	— 850	+ 1,180	+ 460	+ 990
Total balance . . .	— 2,740	+ 2,830	+ 1,720	+ 1,810

Note: As exports are valued f.o.b. and imports c.i.f., the figures for the exports of any area will be lower than the corresponding figures for the imports of the receiving area.

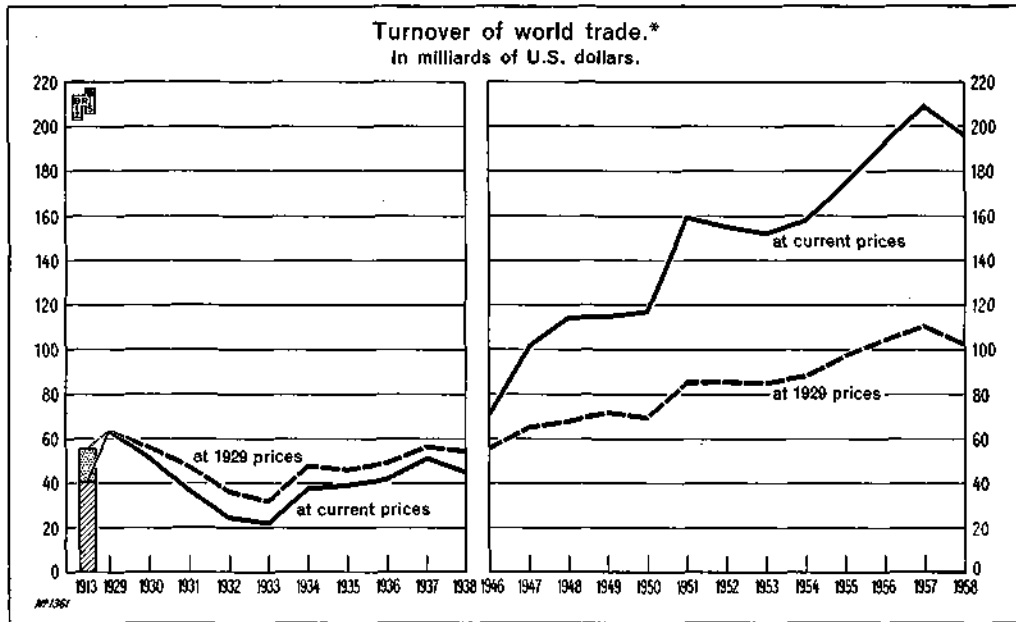
* Including military shipments. Special-category exports, for which no geographical break-down is given, are shown under "Rest of the world". If properly distributed they would increase the figures for exports to O.E.E.C. countries and Canada and Japan.

accounted for by purchases from the United States and \$550 million by those from non-industrial areas.

Non-industrial areas: As far as the trade of these areas can be deduced from the above table (without making any adjustment for freights), there was a fall in exports to industrial countries of the order of \$1.8 milliard. This fall was partly offset by a reduction of about \$900 million in imports from the United States; vis-à-vis industrial countries as a whole the non-industrial areas seem, on balance, to have lost nearly \$1 milliard.

It becomes clear, therefore, that it was the United States which bore the brunt of the contraction in world trade in 1958, although it still had a large export surplus. In view, however, of the fact that U.S. exports had risen in 1956 and 1957 — partly in connection with the Suez crisis — to an exceptionally high level, the turn-about in 1958 may be regarded as a return to a more normal pattern.

The volume of world exports declined by 2.3 per cent. in 1958. This fall was in line with the decrease of 2.5 per cent. in industrial output, whereas



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

in the two preceding years, 1956 and 1957, the increase in world exports had been twice as great as that in industrial production. Unit prices of exports fell by 3 per cent.; these overall averages conceal, however, widely divergent movements in the different areas. Broadly speaking, in the case of the United States and Canada the decline in exports was mainly due to a decrease in volume, whereas in that of the primary-producing countries it was attributable to a fall in prices. The volume of U.S. exports contracted by 14 per cent., while prices declined by about 1 per cent. In non-industrial areas the reverse was true, unit values having dropped by 5 per cent., whereas the volume of exports increased very slightly.

The import bill of the O.E.E.C. countries was reduced as a result of both the decline in the volume of their purchases from the United States and the fall in the prices of their imports from non-industrial countries, but the latter was the decisive factor, as, in terms of volume, the contraction in imports from the United States was partly cancelled out by an increase in those from other countries. Roughly half the O.E.E.C. countries' imports come from members of the group and half from other areas. Of the latter, North America accounts for one-third and other non-O.E.E.C. countries, which can be held broadly to comprise the primary-producing areas, for two-thirds. In 1958 imports by O.E.E.C. countries from the rest of the world amounted to \$23.1 milliard, this being \$2.6 milliard less than in 1957, of which roughly two-thirds was in relation to North America and one-third vis-à-vis other non-O.E.E.C. countries.

In the following table an attempt has been made to ascertain the extent to which the changes in the value of trade were due to variations in volume, on the one hand, and in prices, on the other. While the accuracy

O.E.E.C. countries: Trade with other areas.
Changes from 1957 to 1958 due to variations in price and volume.

Areas and factors of change	Imports (decrease +)			Exports (decrease —)		
	Changes in relation to corresponding period of previous year					
	1st half	2nd half	Year	1st half	2nd half	Year
	in millions of U.S. dollars					
North America						
Price	+ 170	.	.	+ 90	.	.
Volume	+ 890	.	.	- 90	.	.
Total	+ 1,060	+ 580	+ 1,640	± 0	+ 250	+ 250
Other non-O.E.E.C. countries						
Price	+ 1,180	.	.	+ 110	.	.
Volume	- 470	.	.	- 170	.	.
Total	+ 710	+ 250	+ 960	- 60	+ 200	+ 140
Total of above areas						
Price	+ 1,350	+ 920	+ 2,270	+ 200	+ 60	+ 260
Volume	+ 420	- 90	+ 330	- 260	+ 390	+ 130
Grand total	+ 1,770	+ 830	+ 2,600	- 60	+ 450	+ 390

of the price and volume indexes may be limited, the general picture which emerges is sufficiently clear to enable the following conclusions to be drawn.

1. Of the total reduction of \$2.6 milliard in the value of imports from the rest of the world, nearly nine-tenths was due to a decline in prices and in freight rates.
2. The greater part — two-thirds — of the total decline occurred during the first half of the year, when imports fell by nearly \$1.8 milliard, against \$800 million in the second half. The difference in the result for the two half-years is obviously related to the fact that the level of imports in the second half of 1957 was lower than it had been in the first half, as prices had started falling by mid-1957 and the volume of imports from North America began to decline in the second quarter of that year.
3. Of the \$1 milliard decline in imports from North America during the first half of 1958 (regional price and volume indexes for the second half were not available at the time of writing), over four-fifths represented a fall in volume and less than one-fifth a decline in prices. As regards imports from other countries, the decline of \$1.2 milliard caused by the fall in prices was partly compensated by a rise of nearly \$500 million due to the increase in volume.

Turning to the individual O.E.E.C. countries, it will be seen that the balance of trade of seven of the ten countries listed below showed a considerable improvement in 1958 compared with 1957; in two countries, Austria and Sweden, there was practically no change, while Norway alone suffered a deterioration.

Balance of trade of ten O.E.E.C. countries.
Changes from 1957 to 1958 due to variations in price and volume.

Countries	Imports (decrease +)			Exports (increase +)			Balance (improvement +)
	due to variations in		Total	due to variations in		Total	
	price	volume		price	volume		
In millions of U.S. dollars							
Austria	+ 70	- 20	+ 50	- 20	- 40	- 60	- 10
Belgium-Luxemburg . . .	+ 180	+ 140	+ 320	- 170	+ 20	- 150	+ 170
France	+ 460	+ 50	+ 510	- 200	+ 230	+ 30	+ 540
Germany	+ 630	- 500	+ 130	- 60	+ 300	+ 240	+ 370
Italy	+ 250	+ 250	+ 500	- 80	+ 70	- 10	+ 490
Netherlands	+ 320	+ 160	+ 480	- 160	+ 280	+ 120	+ 600
Norway	+ 30	- 60	- 30	- 60	- 20	- 80	- 110
Sweden	+ 110	- 50	+ 60	- 30	- 20	- 50	+ 10
Switzerland	+ 90	+ 170	+ 260	+ 10	- 20	- 10	+ 250
United Kingdom	+ 810	+ 10	+ 820	+ 10	- 340	- 330	+ 490
Total	+ 2,950	+ 150	+ 3,100	- 760	+ 460	- 300	+ 2,800

Note: In contrast to those in the previous table, which dealt only with the trade of the O.E.E.C. countries with the rest of the world, the above figures refer to the total trade of the countries concerned, i.e. including trade with other O.E.E.C. countries.

In all countries except France, Germany and the Netherlands the improvement was entirely attributable to the fall in imports, as exports declined in relation to 1957. In the three exceptional cases the rise in exports was due mainly to increases in volume, amounting to 4.5 per cent. in the case of France, 3.7 per cent. in that of Germany and 9.6 per cent. in that of the Netherlands. In the case of France the change caused by the increase in the volume of exports was almost entirely cancelled out by a 4 per cent. fall in unit values due to the de facto devaluation in the second half of 1957. In the Netherlands the effect of an expansion in the volume of exports was only partly offset by the price decline, while in Germany the price movement had practically no influence.

With the exception of Norway, the ten countries listed in the table all had a lower import bill in 1958 than in 1957. In the case of Norway an increase in the volume of imports, mainly attributable to deliveries of ships previously ordered, outweighed the "saving" due to lower prices. In the other countries lower prices played an important rôle. In the case of the United Kingdom they were responsible for practically the whole of the decline. In the Belgium-Luxemburg Economic Union, France, Italy, the Netherlands and Switzerland the value of imports was reduced on account of both a contraction in volume and a fall in prices, while in Austria, Germany and Sweden the effect of the price decline was partly offset by an increase in the volume of imports. On balance, in the ten countries in question the changes due to variations in the volume of imports cancelled each other out to a large extent, whereas the improvement due to lower prices amounted to nearly \$3 milliard.

In the case of most O.E.E.C. countries the improvement in the balance of trade was the main factor influencing the balance on current account, and in some cases there was also a net improvement in the balance of invisible items.

Among the northern countries, Denmark was the one which was least affected by the fall in freight rates, partly because it is less dependent on freight earnings than the other three, but mainly because its exports developed very favourably in 1958. In this country the recessionary trend had started earlier than in other European countries but it was overcome by the middle of 1958.

Imports (c.i.f.) declined from D.Kr. 9,500 million in 1957 to D.Kr. 9,400 million in 1958, while exports rose by D.Kr. 600 million to D.Kr. 8,740 million. The decline in imports of raw materials, fuels and semi-manufactured goods was partly compensated by an increase in imports of manufactured goods, in particular machinery. Exports of manufactured products, including processed meat and milk, increased by roughly D.Kr. 400 million, most of the rise being accounted for by machinery and new vessels. Agricultural and fish exports, notwithstanding a serious decline in the price of butter, rose by D.Kr. 180 million. As the decline in receipts from shipping was partly offset by an increase in those from the tourist trade, so that invisible items as a whole did not fall much below their former level, a current surplus of D.Kr. 875 million was achieved in 1958, against one of D.Kr. 290 million in 1957.

Despite the great improvement in its external position, Denmark is still far from having achieved full liberalisation of its imports. In relation to O.E.E.C. countries the percentage attained at the end of 1958 was 86 and in relation to the dollar area only 66 (this was raised to 70 per cent. in March 1959).

Unlike Denmark, Norway suffered a serious deterioration in its external position in 1958, owing to the combination of a rise in imports, a considerable decline in exports and a fall in shipping receipts, which caused the 1957 surplus on current account of N.Kr. 150 million to be replaced by a deficit of N.Kr. 1,235 million in 1958.

Imports increased from N.Kr. 9,240 million in 1957 to N.Kr. 9,430 million in 1958, but if ships (which amounted to a quarter of total imports in 1958, against 17 per cent. in the previous year) are excluded the value of imports is found to have actually declined by 7 per cent. — almost entirely on account of lower prices. Norway was particularly hard hit by the decline in foreign demand for such products as metals, wood-pulp, paper and cardboard, and the total value of its exports, including ships, fell by nearly 10 per cent. to N.Kr. 5,370 million in 1958, although in terms of volume the decline was only 2 per cent.; the deficit in the balance of trade increased from N.Kr. 3,300 million to N.Kr. 4,060 million.

In 1957 net receipts from shipping, amounting to N.Kr. 3,375 million, more than covered the trade gap. But in 1958, although there was an increase

of about 12 per cent. in tonnage, receipts declined to N.Kr. 2,700 million, leaving a deficit on current account of N.Kr. 1,235 million, which was offset as to about one-half by foreign loans in respect of Norwegian orders for ships, while there was an additional inflow of capital which more than compensated the remainder.

As in Denmark, the degree of dollar liberalisation was raised in the course of 1958, and it stood at 91 per cent. at the end of that year, against 87 per cent. at the end of 1957.

O.E.E.C. countries: Current account of the balance of payments.

Countries	Balance of trade		Net invisible items		Balance on current account	
	1957	1958	1957	1958	1957	1958
In millions of U.S. dollars						
Austria	- 107	- 110	+ 95	+ 122	- 12	+ 12
Belgium-Luxemburg . . .	+ 94	+ 92 ¹	+ 108	+ 126 ¹	+ 200	+ 218 ¹
Denmark	- 67	+ 24	+ 109	+ 103	+ 42	+ 127
France	- 949	- 300	- 255	- 46	- 1,204	- 346
Germany	+ 1,811	+ 2,017	- 370 ²	- 295 ²	+ 1,441	+ 1,722
Greece	- 248	- 238	+ 153	+ 156	- 95	- 82
Iceland	- 10	- 9	± 0	± 0	- 10	- 9
Ireland	- 146	- 190 ³	+ 155	+ 170 ³	+ 9	- 20 ³
Italy	- 811	- 415	+ 856	+ 992	+ 45	+ 577
Netherlands	- 616	- 72	+ 507	+ 530	- 109	+ 458
Norway	- 464	- 568	+ 485	+ 395	+ 21	- 173
Portugal	- 177	- 166 ³	+ 64	+ 50 ³	- 113	- 106 ³
Sweden	- 291	- 279	+ 273	+ 232	- 18	- 47
Switzerland	- 404	- 160	+ 359	+ 358 ³	- 45	+ 198 ³
Turkey	- 52	- 38 ¹	+ 35	+ 3 ¹	- 17	- 35 ¹
United Kingdom	- 162	+ 336	+ 898	+ 938	+ 736	+ 1,274

¹ January to June. ² Including indemnification payments and donations. ³ Estimate.
 Note: For balance-of-payments purposes the balance of trade is in most cases calculated in terms of f.o.b. values. Because of this and other minor differences in valuation the changes from 1957 to 1958 in the above figures differ from those shown in the previous table.

The external position of Sweden did not change much in 1958 and can be considered as having remained virtually in equilibrium. Imports declined by S.Kr. 320 million and exports by S.Kr. 260 million, so that the trade deficit was slightly reduced. The decline in trade was limited to the first nine months of the year, as both imports (partly in connection with an accumulation of purchases before the coming into force at the beginning of 1959 of a new customs tariff) and exports rose markedly in the last quarter of 1958. For the year as a whole the decline in the value of exports of iron ore, timber and pulp was partly compensated by an increase in exports of transport equipment, while on the import side a rise in purchases of machinery was more than offset by a fall in those of base metals and fuels.

Net receipts from shipping and other services declined from S.Kr. 1,410 million in 1957 to S.Kr. 1,200 million in 1958 and the deficit on current

account rose from S.Kr. 95 to 241 million. In addition, there was a small net outflow of capital of S.Kr. 11 million, against one of S.Kr. 33 million in 1957. The disparity between the development of the balance on current and capital account and that of the foreign exchange reserves, which rose by S.Kr. 153 million, became greater during 1958. This was probably the result of a rise in commercial credits obtained abroad and advance payments made in favour of Sweden.

Although Finland was much harder hit by the decline in freight rates than Sweden (its net receipts having been reduced from 1957 to 1958 by some 20 per cent., against 13 per cent. in the case of Sweden), there was an improvement in its balance on current account owing to a remarkable rise in exports.

The 39 per cent. devaluation of September 1957 restored the competitiveness of Finnish export products, sales of which in 1958, despite the reduction in foreign demand, fell by only 2 per cent. in volume, while in terms of markkas their value increased by 17 per cent. compared with 1957. The exports of the timber and paper industry, which comprise nearly 70 per cent. of all exports, even increased slightly in volume. The volume of imports declined by 11 per cent., reflecting the slowing-down of domestic activity. The reduction in volume together with the decline in world-market prices nearly offset the rise in import values as expressed in terms of devalued markkas, so that Finland's import bill increased by only 2 per cent. over the previous year. As a result the 1957 trade deficit of FM 15.5 milliard was followed in 1958 by a surplus of the same magnitude.

The policy of liberalisation — the liberalisation percentage (on the basis of 1954) vis-à-vis multilateral-agreement countries has been 82 since March 1958 — caused a shift in the geographical distribution of Finland's trade, the share of the O.E.E.C. countries increasing as regards both imports and exports, from 56 to 62 per cent. of the total, while that of the eastern European countries and the U.S.S.R. fell off.

Finland: Balance of payments.

Items	1956	1957	1958*
	in milliard of markkas		
Merchandise trade			
Imports	204.3	227.9	233.1
Exports	178.2	212.4	247.8
Balance of trade	- 26.1	- 15.5	+ 14.7
Invisible items			
Transport	+ 16.1	+ 17.7	+ 13.7
Others invisible items	- 3.0	- 3.6	- 4.0
Total invisible items	+ 13.1	+ 14.1	+ 9.7
Total balance on current account . .	- 13.0	- 1.4	+ 24.4

* Preliminary.

In 1958 the trade surplus was supplemented by net receipts of FM 9.7 milliard from invisible items. Finland repaid part of its long-term foreign indebtedness (amounting to FM 99 milliard at the end of 1957), but, as new borrowing exceeded repayments, there was an inflow of capital of FM 1.5 milliard.

In Iceland the very fast rate of economic growth in recent years has led to continual large deficits in the balance of trade and in that of invisible items, only partly offset by military receipts, and the resultant exhaustion of the foreign exchange reserves has made heavy borrowing necessary.

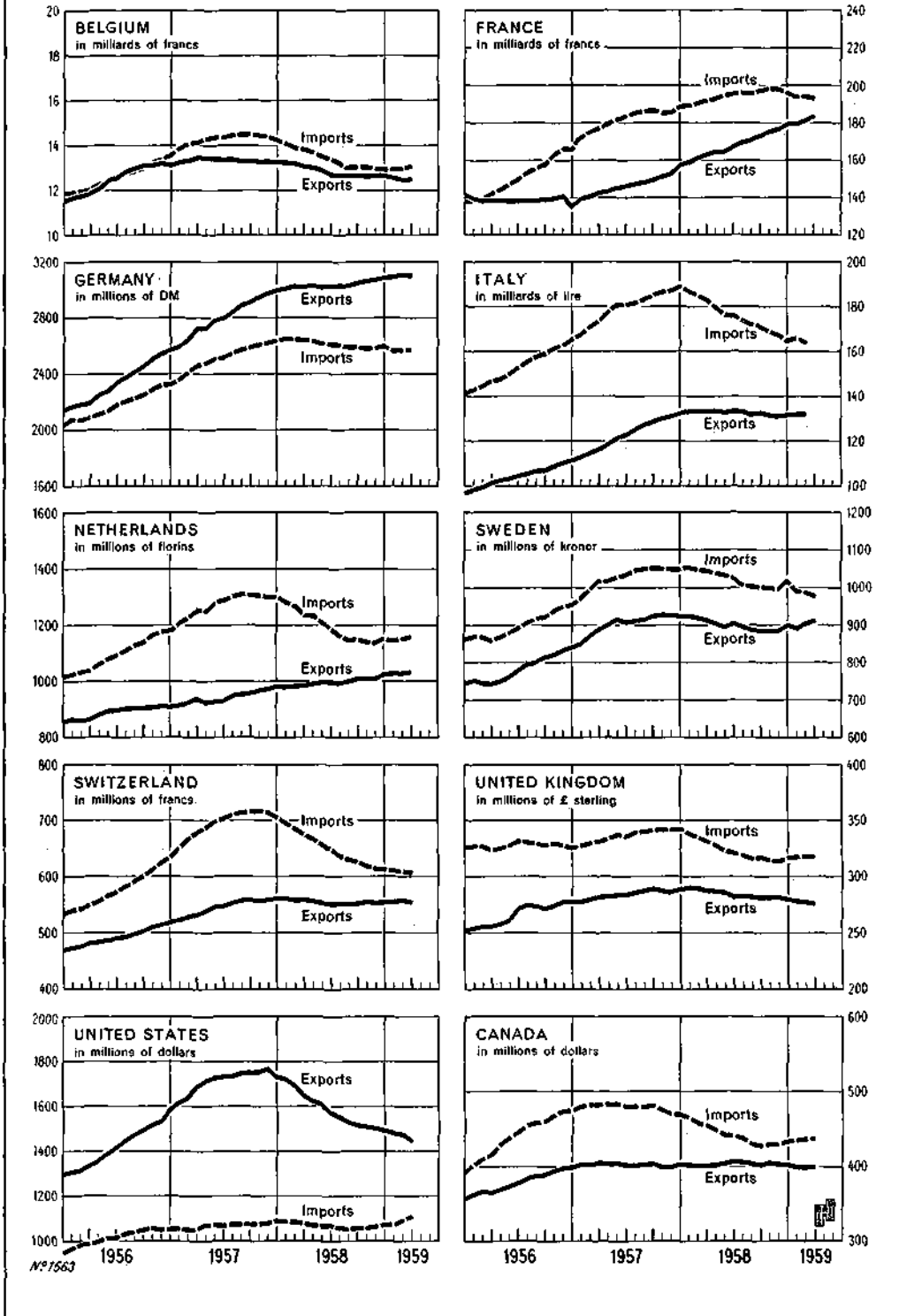
In the spring of 1958 export subsidies and import levies were increased in order to narrow the gap between domestic and foreign prices. This measure does not seem to have helped much to reduce the foreign trade deficit, which fell only from \$23 million in 1957 to \$21 million in 1958. In 1957 about one-third of Iceland's trade was with the eastern European countries and the U.S.S.R.; in 1958 these countries supplied a smaller proportion of Iceland's imports and took a larger proportion of its exports.

From the end of the war up to 1956 Ireland had persistent balance-of-payments deficits. In order to check the growth in imports, special levies (which have since been either abolished or merged with the ordinary customs tariff) were introduced in March 1956. This measure, together with an exceptional rise in exports of cattle, reduced the trade deficit from \$202 million in 1956 to \$146 million in 1957. Since at the same time net receipts from invisibles — in particular the tourist trade, emigrants' remittances and investment income — increased from \$161 to 172 million, there was a slight surplus on current account in 1957. In 1958 exports were almost up to the previous year's level, while imports rose in connection with a revival of internal activity. Assuming that net receipts from invisible items were about the same as in 1957, Ireland probably had a small deficit on current account in 1958.

The Netherlands experienced a remarkable improvement in its balance on current account in 1958, and in addition there was a net inflow of private capital. Most of the improvement was due to a fall in imports, which decreased from Fl. 13.7 milliard in 1957 to Fl. 12.1 milliard in 1958, two-thirds of the decline being accounted for by lower import prices. The contraction in the volume of imports was due mainly to a fall in purchases of raw materials, semi-manufactured goods and investment goods, as a result of large drawings on stocks and a reduction in net investment in fixed assets by enterprises. Imports of consumer goods, on the other hand, remained practically stable, as did the level of domestic consumption.

Exports rose from Fl. 11.4 milliard in 1957 to Fl. 11.9 milliard in 1958, since a decline in prices (which affected mainly the chemical and oil-refining industries) was more than made up for by an 11 per cent. growth in volume (exports of the agricultural sector and the metal industry having risen most).

Foreign trade.
 Monthly averages for twelve-month periods ending with the month shown.



Netherlands: Balance of payments.

Items	1956	1957	1958	1958	
				1st half	2nd half
in millions of florins					
Merchandise trade (f.o.b.)					
Imports	12,994	13,731	12,134	5,869	6,265
Exports	10,536	11,391	11,859	5,672	6,187
Balance of trade	-2,458	-2,340	- 275	- 197	- 78
Invisible items (net)					
Investment income	+ 245	+ 241	+ 326	+ 117	+ 209
Emigrants' remittances and private donations	+ 15	+ 6	+ 46	+ 35	+ 11
Other invisible items	+1,586	+1,680	+1,643	+ 842	+ 801
Total Invisible Items	+1,846	+1,927	+2,015	+ 994	+1,021
Balance on current account	- 612	- 413	+1,740	+ 797	+ 943
Capital movements (inflow -)	+ 294	- 539	- 163	- 142	- 21
Changes in gold and foreign exchange reserves (increase +)*	- 906	+ 126	+1,903	+ 939	+ 964

* Including consolidated claims originating from payments agreements, U.S. grants and I.M.F. operations.

While in 1957 net receipts from invisible items covered only four-fifths of the import surplus, leaving a deficit on current account of Fl. 413 million, in 1958, owing to the very small trade deficit and to a slight increase in receipts from invisible items due mainly to a rise in investment income, there was a surplus on current account of Fl. 1,740 million.

The net capital inflow of Fl. 163 million was the result of very large movements of capital in both directions. The inflow, mainly in the form of purchases of Dutch securities (including foreign subscriptions to the issue of the Royal Dutch Petroleum Company), amounted to Fl. 1,485 million, whereas the outflow totalled Fl. 774 million. While in 1957 capital transactions by public authorities had practically cancelled each other out, in 1958 they involved a net outflow of Fl. 548 million, which almost offset the net inflow of private capital of Fl. 711 million.

Since 1952, when sales of Dutch securities to foreigners began to reach significant proportions, these have amounted altogether to Fl. 2.9 milliard (to which must be added an inflow of capital of Fl. 700 million in other forms). Against this there has been a rise of Fl. 2.4 milliard in the amount of Dutch private investment abroad and other long-term lending. Taking into account a reduction of Fl. 1.4 milliard in the public authorities' external long-term debt, the movements of long-term capital over the last seven years appear to have resulted in a net export of only Fl. 200 million.

The Belgium-Luxemburg Economic Union improved its balance of trade in 1958, as the decline in exports was more than compensated by a contraction in imports. Exports fell from B.fcs. 159 milliard in 1957

to B.fcs. 152 milliard in 1958, the decline being entirely due to a reduction in prices — particularly in those of metal goods, semi-manufactured products and textiles, which together make up some 40 per cent. of total exports. The slackening of foreign demand does not appear to have been the main factor responsible for the fall in industrial production in 1958, as there was a small increase in the volume of exports. Imports fell from B.fcs. 172 milliard in 1957 to B.fcs. 156 milliard in 1958, also mainly on account of lower prices. The trade deficit was consequently reduced, from B.fcs. 12 to 4 milliard.

According to the balance-of-payments figures for 1957, Belgium had a surplus of exports over imports in that year of B.fcs. 600 million, to which must be added its net receipts from processing and merchanting trade amounting to B.fcs. 4.1 milliard — which brings the total to B.fcs. 4.7 milliard. Net receipts from invisibles came to B.fcs. 5.3 milliard, so that the balance on current account showed a surplus of B.fcs. 10 milliard, which was partly offset by an outflow of capital (mainly private) amounting to B.fcs. 6.1 milliard.

Making allowance for errors and omissions, the surplus on current and capital account totalled B.fcs. 2.1 milliard in 1957. For 1958 it has been provisionally estimated at some B.fcs. 17 milliard. During the first half of 1958 there was a surplus on current account of B.fcs. 10.9 milliard, and there were practically no offsetting capital movements.

Austria suffered from the decline in foreign demand for metallurgical products. Its total exports fell from Sch. 25.4 milliard in 1957 to Sch. 23.9 milliard in 1958, two-thirds of the reduction being accounted for by these products. As at the same time the value of imports declined by Sch. 1.4 milliard, from Sch. 29.3 to 27.9 milliard, the trade deficit was somewhat larger than in the previous year. Net receipts from invisible items, on the other hand, increased substantially in 1958, mainly owing to a rise in receipts from the tourist trade, so that (excluding unrequited deliveries made in compliance with the State Treaty with the U.S.S.R.) there was a small surplus on current account amounting to Sch. 280 million, against a deficit of Sch. 300 million in 1957.

Taking advantage of the liquidity of foreign markets, Austria borrowed heavily in 1958, partly to cover the budget deficit and partly in order to finance the building and expansion of electrical power stations. The net inflow of capital amounted to Sch. 3.1 milliard, against Sch. 1.5 milliard in 1957.

Whereas in most O.E.E.C. countries there was in 1958, despite the recession, an increase in the value of exports of manufactured products other than textiles, in Switzerland there was a small decline. This is attributable to a single major change — a drop of Sw.fcs. 185 million in exports of watches, mostly to the United States and Asia; exports of chemicals, however, remained at the 1957 level and those of machinery increased.

The import bill was reduced from Sw.fcs. 8.4 milliard in 1957 to Sw.fcs. 7.3 milliard — chiefly as a result of a contraction in the volume of

imported raw materials. As exports declined from Sw.fcs. 6.7 to 6.6 milliard, the deficit in the balance of trade, which had reached the unprecedented level of Sw.fcs. 1.7 milliard in 1957, was reduced to Sw.fcs. 700 million in 1958. If net receipts from invisible items, which constitute the more stable element in the balance on current account, are assumed to have remained the same as in 1957 (when they amounted to Sw.fcs. 1,540 million, of which Sw.fcs. 735 million represented net tourist receipts and Sw.fcs. 580 million investment income), the result will have been a surplus of over Sw.fcs. 800 million in 1958, compared with a deficit of nearly Sw.fcs. 200 million in the previous year.

The cumulative surplus on current account for the twelve years since 1947, when the Swiss market was reopened to foreign issues, comes to Sw.fcs. 4.8 milliard. Over the same period Swiss subscriptions to foreign issues placed on the Swiss market have totalled some Sw.fcs. 1.5 milliard. Roughly the same amount is likely to have been invested in foreign securities.

During 1958 Switzerland conducted tariff negotiations with twelve member countries of the G.A.T.T. and in November it was admitted to provisional membership of the organisation for a period of two years. Negotiations took place on the basis of a draft tariff intended to replace the present one, which dates back to 1902, though it has been considerably altered since then. In a special session held in April 1959 the House of Representatives adopted the new tariff as amended in the light of the G.A.T.T. negotiations, but this has yet to be submitted to the Council of States and eventually to a plebiscite. The average level of the new tariff will probably work out at between 5 and 5.5 per cent., compared with the present level of 4.5 per cent.

Since the war the balance on current account of metropolitan France vis-à-vis foreign countries has been in deficit every year, except in 1954 and 1955, when inflation was fairly well under control and large U.S. off-shore purchases, together with very good harvests, combined to bring about a surplus. The deterioration which began in 1956, when there was a deficit of nearly \$700 million, was aggravated in 1957 by the Suez crisis and by an excessive expansion in domestic demand, which the country's resources were unable to satisfy and which pushed the deficit up to \$1,200 million. As a result of drastic internal measures and the favourable development of the terms of trade, the deficit was brought down to \$350 million in 1958.

Liberalisation was completely suspended in June 1957 and the franc was devalued by 16.7 per cent. in the autumn of that year. At the beginning of 1958 stringent budgetary and credit measures were resorted to in order to restore internal and external equilibrium. The balance-of-payments estimates for 1958, prepared as part of the general economic programme submitted to the O.E.E.C. by the French Government, put the imports of metropolitan France from foreign countries at \$3,700 million, on an f.o.b. basis, and its exports to foreign countries at \$3,460 million. The total deficit on current and capital account for the whole of the French franc area was

French franc area: Balance of payments.

Items	1956	1957	1958 ¹	1958	
				1st half	2nd half ¹
in millions of U.S. dollars					
Metropolitan France					
Merchandise trade (f.o.b.)					
Imports	4,087	4,276	3,525	1,857	1,668
Exports	3,279	3,327	3,225	1,592	1,633
Balance of trade	- 808	- 949	- 300	- 265	- 35
Invisible Items (net)					
Transport	- 236	- 366	- 134	- 69	- 45
Investment income	+ 103	+ 110	+ 73	+ 46	+ 27
Tourist trade	- 66	- 80	+ 62	+ 2	+ 60
Government transactions	+ 391	+ 228	+ 114	+ 92	+ 22
Other invisible items	- 68	- 147	- 161	- 65	- 86
Total invisible items	+ 124	- 255	- 46	- 14	- 32
Balance on current account	- 684	-1,204	- 346	- 279	- 67
Overseas territories²					
Balance on current account with foreign countries	- 151	- 207	- 125	- 80	- 45
Whole of French franc area					
Balance on current account	- 835	-1,411	- 471	- 359	- 112
Balance on capital account ³	- 11	+ 131	+ 45	- 23	+ 68
Total balance on current and capital account	- 846	-1,280	- 426	- 382	- 44
Balanced by					
Foreign aid (net)	+ 99	+ 90	+ 112	+ 43	+ 69
E.P.U. credits received (+)	+ 121	+ 175	+ 241	+ 132	+ 109
Drawings on I.M.F. (+)	- 45	+ 262	+ 131	+ 131	-
Changes in gold and foreign exchange reserves (increase -)	+ 698	+ 775	- 50	+ 72	- 122
Errors and omissions	- 27	- 22	- 8	+ 4	- 12
Total	+ 846	+ 1,280	+ 426	+ 382	+ 44

¹ Provisional. ² 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 Vietnam. ³ Excluding drawings on or repayments to the I.M.F., viz.: 1956, repayments \$45 million; 1957 and 1958, drawings \$262.5 and 131.2 million respectively.

estimated at \$415 million. According to provisional results for 1958, the actual deficit amounted to \$426 million.

The main cause of the deterioration in the balance of payments in 1957 was the change in the balance of invisible items, from a surplus of over \$100 million in 1956 to a deficit of \$250 million, while the deficit in the balance of trade increased by \$140 million to \$950 million. The improvement from 1957 to 1958, on the other hand, was mainly due to a contraction of \$650 million in the trade deficit and the reduction of the deficit in respect of invisible items by \$200 million, so that the total deficit on current account was brought down to \$350 million.

France: Trade with foreign countries.¹

Periods	Food, beverages and tobacco	Raw materials	Fuels and lubricants	Manu- factured goods	Total ²	Total ²
	in milliards of French francs					U.S.\$ million
Imports						
1957 1st half	90	265	236	326	929	2,656
2nd half	63	210	215	301	798	2,078
1958 1st half	99	226	237	359	922	2,200
2nd half	73	181	217	311	783	1,869
Exports						
1957 1st half	76	80	34	405	607	1,733
2nd half	96	70	39	414	627	1,611
1958 1st half	79	70	43	470	664	1,581
2nd half	69	67	44	502	682	1,625

¹ Excluding overseas territories. ² Including industrial gold.

In current francs at c.i.f. values, as recorded in the customs returns, imports from foreign countries amounted to Fr.fcs. 1,700 milliard in both 1957 and 1958. Unit values (based on French franc prices) rose by some 2 per cent. in 1958, but this rise was cancelled out by a decline of the same size in the volume of imports.

The suspension of liberalisation and the falling-off in production in the summer of 1958 mainly affected imports of raw materials and fuel, which declined on an average by some 8 per cent. in volume. Imports of manufactured goods fell by only 2 per cent., whereas food imports increased by nearly 30 per cent. (chiefly on account of larger imports of wine). Among exports, agricultural products, semi-processed metallurgical products and semi-manufactured textile goods registered the largest decline in 1958, while sales of motor-cars, iron and steel products, oil-refining products and electrical goods increased substantially. These changes are indicative of a welcome shift towards a pattern in which manufactured goods account for a larger share of exports than in the past. In all, exports to foreign countries increased from Fr.fcs. 1,230 milliard in 1957 to Fr.fcs. 1,350 milliard in 1958, or by 9 per cent. — mainly on account of higher prices.

Since the last quarter of 1958 exports have covered about 90 per cent. of imports, so that the balance of trade can be considered as being practically in equilibrium. In conjunction with the devaluation of the franc on 27th December 1958 and the return to convertibility, liberalisation vis-à-vis the O.E.E.C. countries and the dollar area, which had been suspended since mid-1957, was brought up at one stroke to 90 per cent. and 50 per cent. respectively as from 1st January 1959.

As regards invisible items, the main improvement was in the transport account, the deficit on which was reduced from \$366 million in 1957 to \$134 million in 1958 owing to the decline in freight rates and the return to a normal level of fuel imports after the exceptionally large purchases from the United States and Venezuela at the time of the Suez crisis. There was

also a favourable change in the tourist account, which, after a deficit of \$80 million in 1957, showed a surplus of \$62 million, mainly because of the suspension of the travel allowance for French tourists in May 1958, which resulted in an estimated saving of \$100 million. Among the items which developed less favourably than in 1957 were net income from investments, which fell off slightly, and net payments in respect of workers' remittances (by far the largest of the "other invisible items"), which increased. But the main change was in net government transactions, which declined from \$228 to 114 million on account of smaller receipts from off-shore purchases and other military expenditure, while at the same time disbursements abroad increased, mainly owing to higher expenditure in respect of French troops stationed in Germany.

The deficit of the overseas territories was smaller than in 1957, while the net inflow of capital for the French franc area as a whole declined from \$130 to 45 million. In the private sector the net inflow amounted to \$157 million, of which \$110 million represented repatriation of French capital (including \$61 million in gold) and the rest net foreign investment in France. In the public sector there was a net outflow of capital amounting to \$112 million, chiefly on account of amortisation payments on the external public debt and the payment of France's \$30 million subscription to the European Investment Bank.

The total deficit on current and capital account of \$426 million was more than covered by E.P.U. credits (\$241 million), by drawings on the International Monetary Fund (\$131 million) and by foreign aid (\$112 million).

Among the three southern European countries belonging to the O.E.E.C., Greece and Portugal somewhat improved their balance on current account in 1958, while Turkey's balance deteriorated.

In Greece the deficit in respect of goods and services amounted to \$100 million in 1957 and \$110 million in 1958. Net official donations had fallen to only \$5 million in 1957, but rose again to \$30 million in 1958, so that the deficit on current account declined from \$95 to 80 million. In both years there was an inflow of private long-term capital of over \$40 million which, together with short-term import credits, reduced the strain on the foreign exchange reserves. In 1954 Greece liberalised its imports from the O.E.E.C. and dollar areas to the extent of nearly 100 per cent, but in April 1959 some restrictions were reintroduced in order to switch imports from free-currency to clearing countries.

In Portugal a high rate of domestic investment has caused a sharp rise in imports of equipment goods and fuels in recent years, whereas exports have not expanded. In 1957 there was thus a large trade deficit of \$177 million and a deficit on current account of \$113 million, which could not be covered by the surplus earned by the country's overseas territories. In 1958, owing to a drop in imports, a better balance seems to have been attained.

Faced with an accumulation of foreign commercial debts, Turkey has restricted its imports very severely in the last three years, thereby substantially

reducing its trade and current-account deficits — at the expense of internal development. As inflationary pressures continued, a very critical position arose in 1958 and Turkey received considerable financial help from abroad in conjunction with a programme of stringent economic reforms.

Italy experienced a very satisfactory improvement in its external position in 1958, despite the fact that it was one of the countries in which production continued to increase, though at a slower pace than in previous years. Lower imports, stable exports and larger net receipts from invisibles combined to bring about a surplus on current account (on a cash basis) of \$580 million, to which was added a net inflow of capital and foreign aid of \$270 million, resulting in an increase in reserves of \$850 million.

In 1958 very good crops diminished the need for imports of agricultural products, in particular wheat, oils and fats. On the other hand, imports of maize and of high-quality foodstuffs such as meat, eggs, and coffee increased substantially, owing in part to the rise in incomes, so that, on balance, imports of agricultural products were only very little below the 1957 level. The reduction in imports was therefore mainly due to a decline in purchases of raw materials, such as cotton, wool and copper (a reflection of the slowing-down of production in the first nine months of 1958), and to drawings on stocks, while, at the same time, there was a marked fall in the import prices of these commodities. In addition, there was a big drop in imports of engineering goods, owing partly to an increase in the domestic supply and partly to a falling-off of investment in other sectors of production.

Exports decreased very slightly, from Lit. 1,595 milliard in 1957 to Lit. 1,585 milliard in 1958, a rise in quantity having not been quite sufficient

Italy: Contribution of the different categories of goods and services to current receipts.

Items	1950	1958
	as percentages of total receipts	
Merchandise		
Engineering goods	13	17
Foodstuffs	19	12
Textile products	26	9
Oil and chemical products	4	8
Others	12	13
Total merchandise . . .	74	59
Invisible items		
Tourist trade	5	12
Workers' and emigrants' remittances	7	10
Transport	6	10
Other invisible items . . .	8	9
Total invisible items . . .	26	41
Total current receipts . .	100	100

to offset a decline in prices. In 1957 exports had been swollen by sales of surplus agricultural products, mainly sugar, at below the domestic price. In 1958, owing to the disappearance of this item, together with an increase in domestic consumption, exports of agricultural products fell from Lit. 380 to 325 milliard, but this reduction was more than compensated by a rise in exports of engineering goods, which for the last two years have been the most important single group of exports, accounting for nearly a third of the total in 1958, against a quarter in the previous year. Exports of textiles, on the other hand, declined, both absolutely and relatively.

Italy: Balance of payments
(cash basis).

Items	1956	1957	1958
	in millions of U.S. dollars		
Merchandise trade			
Imports (c.i.f.)	2,908	3,332	2,969
Exports (f.o.b.) ¹	2,160	2,521	2,554
Balance of trade	— 748	— 811	— 415
Invisible items (net)			
Freights	+ 190	+ 225	+ 233
Tourist trade	+ 213	+ 317	+ 406
Workers' and emigrants' remittances	+ 154	+ 187	+ 268
Other invisible items ²	+ 101	+ 127	+ 85
Total invisible items	+ 658	+ 856	+ 992
Balance on current account	— 90	+ 45	+ 577
Foreign aid (receipts —)	— 77	— 137	— 81
Capital movements (inflow —)	— 122	— 104	— 192
Changes in gold and foreign exchange reserves (increase +)	+ 109	+ 286	+ 850

¹ Including off-shore procurements amounting to \$81 million in 1956, \$69 million in 1957 and \$26 million in 1958. ² Including adjustments.

While in 1950 exports accounted for three-quarters of total current receipts, by 1958 their contribution had fallen to 60 per cent. The concomitant rise in the share of invisible items has been mainly the result of the tourist boom since the war and of the demand for Italian labour in Europe.

In 1958 total net receipts in respect of invisible items amounted to nearly \$1 milliard, against \$850 million in the previous year, notwithstanding the subscriptions to the European Investment Bank and the International Monetary Fund (together \$69 million), which could more appropriately be considered as outflows of capital than as items of current expenditure. Foreign aid receipts declined from \$140 to 80 million. The net inflow of capital nearly doubled in 1958 owing to an increase in foreign investment in Italy from \$90 to 170 million, about one-quarter of the total being of American origin and the rest coming from O.E.E.C. countries, principally Switzerland.

It is very unlikely that such a large surplus on current account will be achieved again in 1959. Stocks will have to be replenished and the trend of imports will probably follow that of production, which has been rising more rapidly since the last quarter of 1958. But net receipts from invisibles are now large enough to enable a substantial increase in imports to take place without endangering the reserves.

German exports continued to rise in 1958, although the rate of increase was markedly slower than in previous years. In terms of value, exports rose from DM 36.0 milliard in 1957 to DM 37.0 milliard in 1958, reflecting an increase of 3.6 per cent. in volume (against one of some 15 per cent. in each of

the preceding four years) and a small decline in prices. Imports increased in volume by nearly 7 per cent. (more than twice as fast as production) from 1957 to 1958, but this rise was more than offset by a decline of 9 per cent. in prices, so that the c.i.f. value of imports fell from DM 31.7 to 31.1 milliard. The resultant surplus on merchandise account rose from DM 4.3 milliard in 1957 to DM 5.9 milliard in 1958.

The overall rise of 7 per cent. in the volume of imports conceals widely divergent movements within the various categories, as imports of raw materials were affected by the decrease in demand, while other goods were not.

Germany: Imports, by categories.

Imports	Food	Raw materials	Semi-manufactures	Finished products	Total imports*
Value (in millions of DM)					
1956	9,162	8,225	5,236	5,196	27,964
1957	9,976	9,376	5,741	6,452	31,697
1958	9,408	7,685	5,252	8,500	31,133
Volume (index: 1954 = 100)					
1956	129	138	132	167	139
1957	137	151	150	210	156
1958	137	139	159	283	167
Price (index: 1954 = 100)					
1956	99	109	114	97	104
1957	102	113	110	98	105
1958	96	101	95	94	96

* Because of returned goods and replacement deliveries the sum of the groups does not tally with the total given.

While imports of raw materials decreased in volume by 8 per cent., imports of foodstuffs remained at their 1957 level and those of finished manufactures rose by over 30 per cent. In value, the latter for the first time exceeded raw-material imports, which were particularly low because of the severe fall in prices. Although one-third of the increase in imports of finished products was due to armaments purchases, the expansion in imports was no doubt also attributable to the rise in incomes, to the liberalisation measures and to the reduction in customs duties on manufactured goods (which were lowered by some 45 per cent. in the course of 1957). All this was reflected in a shift in the regional pattern of trade, imports from overseas countries declining by DM 1.5 milliard while those from Europe increased by over DM 900 million.

As regards exports, most of the rise of DM 1,030 million in 1958 was accounted for by increased sales to non-European countries (in particular, China, exports to which rose from DM 200 million to nearly DM 700 million), while the recession prevented German exports to European countries from rising much above their 1957 level. The export surplus vis-à-vis O.E.E.C. countries and their dependencies was reduced from DM 6.6 to 5.6 milliard.

If imports are valued f.o.b. instead of c.i.f., the surplus on merchandise account (including merchanting trade) is seen to have increased from DM 7.6

Germany: Balance of payments.

Items	1955	1956	1957	1958
	In millions of Deutsche Mark			
Merchandise trade (f.o.b.)				
Exports ¹	25,641	30,774	35,928	36,905
Imports	22,339	25,079	28,322	28,432
Balance of trade	+ 3,302	+ 5,695	+ 7,606	+ 8,473
Invisible items (net)				
Transport	- 314	- 566	- 692	- 367
Travel	+ 282	+ 474	+ 483	- 145
Interest and dividends	- 607	- 438	- 395	- 627
Government transactions ²	+ 1,083	+ 1,560	+ 2,371	+ 3,493
Other items	- 798	- 1,228	- 1,672	- 1,956
Total invisible items	- 354	- 196	+ 95	+ 398
Balance on current account	+ 2,948	+ 5,499	+ 7,701	+ 8,871
Indemnities and donations	- 814	- 1,107	- 1,650	- 1,636
Balance on current account, including indemnities and donations	+ 2,134	+ 4,392	+ 6,051	+ 7,235
Balanced by				
Capital movements (outflow +)				
Long-term, official and private	+ 530	+ 557	+ 730	+ 1,607
Short-term, official and private	- 79	- 676	+ 1,903	+ 1,420
Total capital movements	+ 451	- 119	+ 2,633	+ 3,227
Change in terms of payment (in favour of Germany —) ³	- 169	- 576	- 1,703	+ 820
Change in gold and foreign exchange reserves (increase +)	+ 1,852	+ 5,087	+ 5,121	+ 3,188
Total	+ 2,134	+ 4,392	+ 6,051	+ 7,235

¹ Including net surplus in respect of merchanting trade. ² Including exchange of dollars into Deutsche Mark (in millions): 1955, 1,072; 1956, 1,369; 1957, 1,956; 1958, 3,156. ³ Including miscellaneous capital movements and errors and omissions.

Note: As from January 1959 the Bundesbank considers as net exchange movement only the change in the Bundesbank's gold and exchange position, excluding the foreign exchange position of other banks. The above figures for capital movements, terms of payment and reserves have been corrected to comply with the new definition and therefore differ from those given in previous Reports.

milliard in 1957 to DM 8.5 milliard in 1958. The net surplus on invisible account also rose — from DM 100 to 400 million — chiefly as a result of higher receipts in respect of services to foreign military agencies (included in government transactions), which represent the largest single invisible item. In 1958 such receipts reached the unprecedented level of DM 3.2 milliard, against DM 2.0 milliard in the previous year. Since the end of the war the travel account has always been in surplus, net earnings having amounted to some DM 500 million both in 1956 and in 1957. In 1958, however, there was a deficit of DM 150 million. Expenditure in respect of interest and dividends rose from DM 800 million in 1957 to over DM 1 milliard in 1958, chiefly as a result of an increase in the profits made by German subsidiaries of foreign companies, payments made in execution of the London Debt Agreement having remained practically unchanged at DM 230 million.

As payments in respect of indemnities and donations remained at their 1957 level, the total surplus on current account rose from DM 6 milliard in 1957 to DM 7.2 milliard in 1958 and was balanced to the extent of not quite one-half by an outflow of capital.

The terms of payment turned against Germany in the second half of 1958, owing partly to the fact that some of that year's exports consisted of deliveries for which payment had already been made and partly to a lengthening of payment periods for exports. In 1957 the inflow of capital due to leads and lags amounted to DM 1.7 milliard, whereas in 1958 there was an outflow of DM 820 million on that account.

Germany: Long-term investment account.

Years	German investment abroad			Foreign investment in Germany			Net position (outflow —)
	New investment	Dis-investment	Net (outflow —)	New investment	Dis-investment	Net (inflow +)	
in millions of Deutsche Mark							
1954	393	29	— 364	1,130	1,486	— 356	— 720
1955	343	56	— 287	1,516	1,759	— 243	— 530
1956	682	96	— 586	1,399	1,370	+ 29	— 557
1957	1,183	83	— 1,100	2,016	1,846	+ 370	— 730
1958	2,084	236	— 1,848	2,299	2,258	+ 41	— 1,807
Total 1954-58	4,685	500	— 4,185	8,360	8,519	— 159	— 4,344

During the five-year period 1954-58, i.e. from the time of the abolition of the blocked mark until the introduction of convertibility, German long-term investment abroad totalled DM 4.7 milliard. From 1955 onwards it increased very rapidly, almost doubling in value from year to year. Disinvestment during the whole period amounted to only DM 500 million, so that net German investment abroad totalled DM 4.2 milliard, of which over DM 2.9 milliard left the country in the last two years. Private investment, mainly in the form of direct investment in Europe and Latin America, accounted for about two-thirds of the total and official capital for one-third.

In 1958 portfolio investment increased markedly. Two foreign loans were placed on the German market (the first operations of this kind since before the first world war) and there was also a considerable expansion — from DM 40 million in 1957 to DM 500 million in 1958 — in loans and credits to foreigners, including a credit of DM 155 million granted by German banks to the Indian Government. Official capital exports went up from DM 320 to 760 million — a figure which includes Germany's subscription to the European Investment Bank and the amount placed at the disposal of the International Monetary Fund for drawings by France, Turkey and Yugoslavia.

From 1954 to 1958 foreign long-term investment in Germany — all private — amounted to DM 8.4 milliard. This was offset by disinvestment (including official repayments totalling DM 2 milliard, mostly in execution

of the London Debt Agreement) of approximately the same magnitude. The divergent movement represented by the acceleration of the capital outflow and the slowing-down of foreign investment in Germany is probably connected with changes in the relationship between German and foreign interest rates. In 1958, as in the five-year period as a whole, the amount of foreign disinvestment was almost equal to that of fresh investment, German official repayments (mainly under the London Debt Agreement) having offset nearly the whole of the inflow represented by net purchases by foreigners of German securities.

As regards short-term capital movements (in so far as they are statistically ascertainable), in the five years from 1954 to 1958 there was, on balance, a capital outflow of DM 2.3 milliard. On the outflow side, advance payments for defence imports amounted to DM 2.8 milliard and German banks' balances with foreign banks, money-market investments, etc., to DM 1.7 milliard. On the inflow side, nearly one-half, namely DM 1.2 milliard, represented holdings of foreign banks in Germany. The greatest change in short-term movements from 1957 to 1958 was a sharp decline in advance defence payments, which fell from DM 1.9 to 0.6 milliard.

Under the continued influence of very favourable terms of trade and despite a rise in the volume of imports, the current balance-of-payments surplus went on increasing in the first quarter of 1959, when it amounted to DM 2.1 milliard. At the same time the net capital outflow shot up to DM 4.3 milliard — i.e. DM 1 milliard more than in the whole year 1958 — including DM 2.3 milliard in respect of amortisation of the public foreign debt and advance defence payments.

Being so very dependent on imports of raw materials and foodstuffs, the United Kingdom was the European country which benefited most in 1958 from the decline in the prices of primary products. The value of its imports (c.i.f.) fell from £4.1 milliard in 1957 to £3.8 milliard in 1958, or by nearly £300 million, almost entirely owing to lower prices. Between the first quarter of 1957 and the first quarter of 1958 the index of import prices fell by 10 per cent.; thereafter it remained fairly stable. For the year as a whole, import prices were 7.5 per cent. below their 1957 level and, as export prices declined by 1 per cent., the terms of trade improved by 6.5 per cent. The volume of imports was the same in 1957 and 1958 but important shifts occurred among the different groups of imports, reflecting both the fluctuations in domestic production and the growing import content of demand. While imports of food, fuels and finished manufactures rose in volume, those of basic materials and semi-manufactures fell, the two movements offsetting one another.

Since 1954 the United Kingdom's imports, at constant prices, have risen more than proportionately to real national output, the former having increased by 14 per cent. and the latter by 5 per cent. Allowing for changes in stocks and for re-exports, the discrepancy appears to result chiefly from a rising import content within the main categories of demand, with the

United Kingdom: Volume of imports, by commodities.

Years	Food, beverages and tobacco	Basic materials	Fuels and lubricants	Semi-manufactures*	Finished manufactures	Total
	Index: 1954 = 100					
1955	107	105	121	126	122	111
1956	109	102	115	121	136	110
1957	113	106	114	122	152	114
1958	119	94	124	119	166	114

* Including manufactures mainly for industrial use.

exception of industrial materials, excluding steel. In other words, imported goods have taken the place of home-produced goods in recent years, at an estimated cost to the country of between £40 and 50 million a year in the period 1954-58. This development has been particularly evident in the case of foodstuffs and fuel, there having been a marked shift in consumer demand towards higher-quality goods, such as butter, cheese and wine, which have to be imported, and also a change-over from coal to oil.

The volume of exports declined by 3½ per cent. in 1958. In terms of value, exports fell by over £100 million, from £3.3 to 3.2 milliard. The reduction in demand affected — in varying degrees — all branches of production, with the exception of transport equipment, which continued a rise that has been going on uninterruptedly since 1953; the hardest hit were exports of metal goods and textiles, which fell by 15 and 9 per cent. respectively. The fall in exports was most pronounced in the second and third quarters of 1958, when to the weakening of many markets in the non-sterling area was added a fall in exports to the sterling-area countries, the level of whose imports was by that time beginning to respond to lower export prices.

The bright spot in the United Kingdom's export picture was the further very marked increase in sales to the United States in the second half of 1958 (which continued in the first quarter of 1959). For 1958 as a whole, the volume of exports to North America was 7 per cent. above the 1957 level. In terms of value, exports to the United States rose by 15 per cent., with motor-cars accounting for two-thirds of the increase. As far as exports to western Europe are concerned, the suspension of liberalisation in France,

United Kingdom: Volume of exports, by geographical areas.

Years	Sterling area	Other primary producers	North America	Western Europe	Total*
	Index: 1954 = 100				
1955	106	102	115	107	107
1956	104	113	137	116	113
1957	105	120	143	116	116
1958	101	114	153	107	111

* Including Japan and the eastern European countries.

the depressed level of production in Belgium and the deflationary measures adopted in the Netherlands hit the United Kingdom particularly hard. While these three countries' imports from continental O.E.E.C. countries declined in value by 7 per cent. from 1957 to 1958, their imports from the United Kingdom fell by 20 per cent.

In the first half of 1958 the low level of import prices and a contraction in volume combined to reduce the value of imports (f.o.b.), compared with the corresponding period of 1957, by £200 million. As the value of exports declined only slightly, the result was a surplus of exports over imports amounting to £140 million. In the second half of the year the surplus disappeared, owing, in about equal proportions, to a rise in the volume of imports

United Kingdom: Balance of payments.

Items	1956	1957	1958	1958	
				1st half	2nd half
<i>In millions of £ sterling</i>					
Merchandise trade (f.o.b.)					
Imports	3,462	3,573	3,309	1,613	1,696
Exports (Including re-exports)	3,407	3,515	3,429	1,754	1,675
Balance of trade	- 55	- 58	+ 120	+ 141	- 21
Invisible items (net)					
Shipping	+ 105	+ 110	+ 167	+ 85	+ 82
Investment income	+ 115	+ 109	+ 53	+ 41	+ 12
Government transactions	- 167	- 143	- 216	- 101	- 115
Other items	+ 239	+ 245	+ 331	+ 161	+ 170
Total invisible items	+ 292	+ 321	+ 335	+ 186	+ 149
Balance on current account	+ 237	+ 263	+ 455	+ 327	+ 128
Long-term capital account (net) (outflow -)					
Inter-governmental lending and repayments	- 51	+ 72	- 46	- 14	- 32
Other long-term capital	- 200	- 270	- 190	- 90	- 100
Total	- 251	- 198	- 236	- 104	- 132
Balance on current and long-term capital account	- 14	+ 65	+ 219	+ 223	- 4
Balanced by					
Overseas sterling holdings (decrease -) of countries	- 155	- 151	+ 76	+ 1	+ 75
of non-territorial organisations	+ 200 ¹	- 24	- 22	- 14	- 8
Unidentified capital movements and balancing item (Inflow +) ²	+ 8	+ 134	- 2	+ 70	- 72
Gold and convertible currency reserves (increase -) ³	- 42 ³	- 13 ³	- 284	- 267	+ 3
Other official holdings of non-convertible currencies (increase -) ⁴	+ 3	- 11	+ 13 ⁴	+ 7	+ 6 ⁴
Total	+ 14	- 65	- 219	- 223	+ 4

¹ Including drawings on the I.M.F. in the second half of 1956 amounting to £202 million. ² Including errors and omissions both on current and on capital account. ³ Including the account to which interest due on 31st December 1956 on U.S. and Canadian loans was temporarily paid. ⁴ Including convertible currencies set aside for liquidation in the final E.P.U. settlement.

and a decline (partly of a seasonal nature) in exports to the rest of the sterling area. Nevertheless, the trade surplus achieved during the first half strongly influenced the year's results, bringing about a surplus in the balance of trade of £120 million, against a deficit of nearly £60 million in 1957. A surplus on merchandise account in the British balance of payments is very unusual and this was the first to be achieved since long before the war.

The rise in net receipts from invisibles was the result of the following movements: on the one hand, a drop in investment income (partly due to the resumption in December of the service of the North American loans — suspended in 1956 — involving an out-payment of £39 million) and an increase in government expenditure attributable to the cutting-down of Germany's contribution to the United Kingdom's military expenditure in the Federal Republic; and, on the other, a decline in payments for sea transport (falling tramp rates having reduced the United Kingdom's expenditure on foreign shipping more than its own earnings), together with a rise in income from miscellaneous items, including, in particular, the net receipts of the oil industry.

As usual, the current balance showed a substantial surplus in relation to the rest of the sterling area — £440 million, against £353 million in 1957; in addition, there was a small surplus of £15 million, instead of the customary deficit, in respect of transactions with non-sterling countries. The total surplus was reflected partly in a rise in long-term investment abroad and partly in a strengthening of the country's external monetary position.

The net outflow of capital to the sterling area amounted to £231 million in 1958, compared with £295 million in the previous year, when net investments in the sterling area were particularly large, owing to transactions in dollar securities on free markets in the sterling area. Thus the apparent decrease in 1958 merely constitutes a return to what has in the post-war period been the normal outflow, namely about £200 million a year. The swing in inter-governmental lending and repayments from a net inflow of £72 million in 1957 to a net outflow of £46 million in 1958 is mainly due to movements in relation to the non-sterling area. Whereas in 1957 no repayments were made on the U.S. and Canadian loans and the United Kingdom had to draw £89 million of its Export-Import Bank credit, in 1958 repayments amounting to £39 million took place, of which £27 million was in respect of the U.S. and Canadian loans. The outflow of other long-term capital was reduced from £270 million in 1957 to £190 million in 1958. It consisted mainly of net payments to the rest of the sterling area, as capital movements to and from the non-sterling countries largely offset each other.

It is unlikely that the very favourable balance on current and capital account in 1958 will be repeated in 1959, since imports are expected to rise, both in value and in volume, as the United Kingdom moves out of the recession; furthermore, a much larger outflow of capital is expected, including, inter alia, the £232 million subscription to the International Monetary Fund.

A counterpart to the improvement in the balance of payments of the O.E.E.C. countries is to be found in the deterioration in the balance of payments of the United States. Exports on merchandise account (excluding military supplies) fell from \$19.3 to 16.2 milliard. In view of the only slight decline in imports — from \$13.3 to 12.9 milliard — the exceptionally large surplus of \$6 milliard achieved in 1957 was followed by one of \$3.3 milliard. Moreover, owing to a fall in net receipts from transport and to increased military expenditure, the deficit in respect of invisible items rose from nearly \$1 to 1.6 milliard. The current surplus was consequently reduced from \$5.1 to 1.7 milliard. Since government grants and the net capital outflow remained at the 1957 level of \$5.4 milliard, the rest of the world acquired monetary reserves from the United States to the extent of \$3.4 milliard.

Looking back over the whole post-war period, it is seen that in every year since 1948 the outflow of capital and government aid has exceeded the surplus on current account. In 1958 there was, in addition, the fall in U.S. exports, which, though it may in part represent an adjustment from their exceptionally high level in 1957, also perhaps points to a greater competitiveness of European products.

If the seven-year period 1952-58 is considered, it is found that the export surplus in 1958, at \$3.3 milliard, was the same as the average for the six preceding years, and that net receipts from invisible items were somewhat larger. The decline in the U.S. surplus on current account was wholly due to an increase in military expenditure abroad.

If commercial transactions alone are considered, the 1958 surplus (\$4.8 milliard) is seen to have been above the average for the period 1952-57

United States: Counterpart of the
balance-of-payments surplus on current account.

Items	1946-51	1952-57	1958
	annual averages		
	in milliards of dollars		
Commercial transactions			
Export surplus	+ 5.2	+ 3.3	+ 3.3
Invisible items	+ 1.1	+ 1.3	+ 1.5
Military expenditure	- 0.7	- 2.5	- 3.1
Total balance on current account . .	+ 5.6	+ 2.1	+ 1.7
Grants and capital outflow			
Grants other than military	- 3.3	- 1.8	- 1.6
Capital movements on government account	- 2.0	- 0.4	- 1.0
Capital movements on private account* . .	- 0.9	- 1.4	- 2.8
Total	- 6.1	- 3.6	- 5.4
Decrease (+) in gold holdings and Increase (+) in short-term liabilities, errors and omissions	+ 0.5	+ 1.5	+ 3.7

* U.S. net private capital outflow less net inflow of long-term foreign capital.

(\$4.6 milliard). The growth in net receipts from invisibles was mainly due to the increase in earnings on foreign investment, whose steady rise from a level of \$800 million in 1946 to one of nearly \$3 milliard in 1957 and 1958 was chiefly accounted for by direct investment in the oil and manufacturing industries. The main offsetting factor was an increase in expenditure on transport and travel, which more than trebled during the period, having risen from \$900 million in 1946 to \$2.8 milliard in 1957 and \$2.9 milliard in 1958.

In the immediate post-war period the counterpart to the current surplus consisted mainly of direct grants and government loans. Direct grants accounted for more than one-half of the total in that period, but their importance diminished in subsequent years and in 1958 they represented only 30 per cent. of it. Government lending, which averaged \$400 million in the period 1952-57, rose to \$1 milliard in 1958 as a result of greater activity by the Export-Import Bank. Direct investment, which is the preponderant element in private capital movements, increased from an average of some \$650 million in the period 1946-55 to \$1.8 milliard in 1956 and over \$2 milliard in 1957 (in which year it included substantial payments for oil concessions in Venezuela), but fell back to \$1.1 milliard in 1958. The decline in direct investment in 1958 was, however, partially offset by subscriptions to foreign security issues.

The decline in the trade surplus in 1958 was due to the sharp fall in exports, imports having remained at approximately their 1957 level. On the basis of previous experience imports might have been expected to decline to a greater extent than the volume of industrial production. Already in 1953-54, however, imports (as measured in the balance of payments) had fallen less than industrial production, having decreased by 5 per cent. in the fifteen-month period from July 1953 to September 1954 compared with the preceding fifteen months, while production had declined by 9 per cent. Between the fourth quarter of 1957 and the second quarter of 1958 industrial production fell by 8 per cent. compared with the previous nine months and imports by only 2 per cent. This approximate stability was the result of a rise in imports of manufactures (mainly motor-cars) and of foodstuffs and a decline in those of raw materials. The reduced sensitivity of total imports to the fluctuations of the business cycle in recent years seems to be attributable at least in part to the increased proportion of manufactured goods in the total, the ratio having risen from 19 per cent. in 1949 to 30 per cent. in 1958. Among manufactures, consumer goods continued their upward trend, though at a reduced rate, both in the recession of 1953-54 and in that of 1957-58, owing to the stability of personal incomes.

While U.S. imports of finished manufactured products increased from \$3.5 milliard in 1957 to \$3.9 milliard in 1958, exports of such products fell from \$10.4 to 9.4 milliard over the same period and the share of the United States in world exports of manufactured goods declined from 25.4 per cent. in 1957 to 23.2 per cent. in 1958, leaving a larger share for several O.E.E.C. countries, especially Germany. A recent study by the National Institute of Economic and Social Research in London on the competitiveness of the

United States and the four other main industrial countries, i.e. France, Germany, the United Kingdom and Japan, shows that one-third of the fall in the United States' exports of manufactured goods to third markets in the first nine months of 1958 compared with the same period in 1957 was due to a decline in its share in these markets. The competitiveness of western Europe and Japan has increased, and the advantage hitherto enjoyed by the United States with regard to the availability of goods, short delivery dates and, sometimes, prices is being reduced, if not wiped out, as a result of the increase in industrial capacity and efficiency in other countries.

United States: Balance of payments.

Items	All areas			Western Europe and dependencies		
	1956	1957	1958	1956	1957	1958
in millions of dollars						
Net military transfers under grants balanced by corresponding exports of goods and services (excluded from the following data) . . .	2,610	2,440	2,510	1,890	1,540	1,490
Commercial exports	17,320	19,330	16,210	5,970	6,810	5,240
Commercial imports	12,790	13,290	12,940	3,930	4,050	4,180
Balance of trade	+ 4,530	+ 6,040	+ 3,270	+ 2,040	+ 2,560	+ 1,080
Invisible Items (net)						
Transport	+ 190	+ 420	+ 170	+ 50	+ 110	- 20
Travel	- 570	- 590	- 660	- 480	- 480	- 550
Investment income	+ 2,040	+ 2,230	+ 2,270	+ 220	+ 280	+ 500
Military expenditure	- 2,750	- 2,750	- 3,090	- 1,740	- 1,720	- 1,890
Private remittances, pensions and other invisible items	- 370	- 270	- 270	- 270	- 200	- 200
Total invisible items	- 1,460	- 960	- 1,580	- 2,220	- 2,010	- 2,150
Balance on current account	+ 3,070	+ 5,080	+ 1,690	- 180	+ 550	- 1,070
Government grants	- 1,890	- 1,610	- 1,610	- 470	- 320	- 330
U.S. capital movements (net) (outflow -)						
On government account	- 630	- 960	- 960	- 60	- 370	- 30
On private account	- 2,980	- 3,210	- 2,920	- 780	- 460	- 480
Total U.S. capital movements	- 3,610	- 4,170	- 3,880	- 840	- 830	- 510
Foreign capital movements (net) (inflow +)	+ 410	+ 310	+ 60	+ 280	+ 350	- 10
Total net grants and capital movements (outflow -)	- 4,890	- 5,470	- 5,430	- 1,030	- 800	- 850
Balanced by						
Gold sales to foreigners (+)	- 310	- 800	+ 2,270	- 80	- 70	+ 2,330
Short-term liabilities to foreigners (increase +)	+ 1,440	+ 320	+ 1,090	+ 860	+ 310	+ 650
Unrecorded payments, errors and omissions (outflow +)	+ 690	+ 870	+ 380	+ 430	+ 10	- 1,060
Total	+ 1,820	+ 390	+ 3,740	+ 1,210	+ 250	+ 1,920

An inquiry concerning comparative production costs based on a study of nearly two hundred American firms manufacturing the same eighty-five products in the United States and in subsidiaries abroad points to the same conclusion.* In western Europe (the countries covered by the study are the United Kingdom, the countries of the European Economic Community and Spain) production costs per unit in 1956-57 were lower than in the United States for fifty-five products. In fourteen of the remaining cases they were about the same and in the other sixteen they were higher. Among the latter, five were products manufactured in France. As in the meantime the French franc has been devalued by nearly 30 per cent., the costs in respect of even these may have fallen to, or below, the U.S. level.

* * *

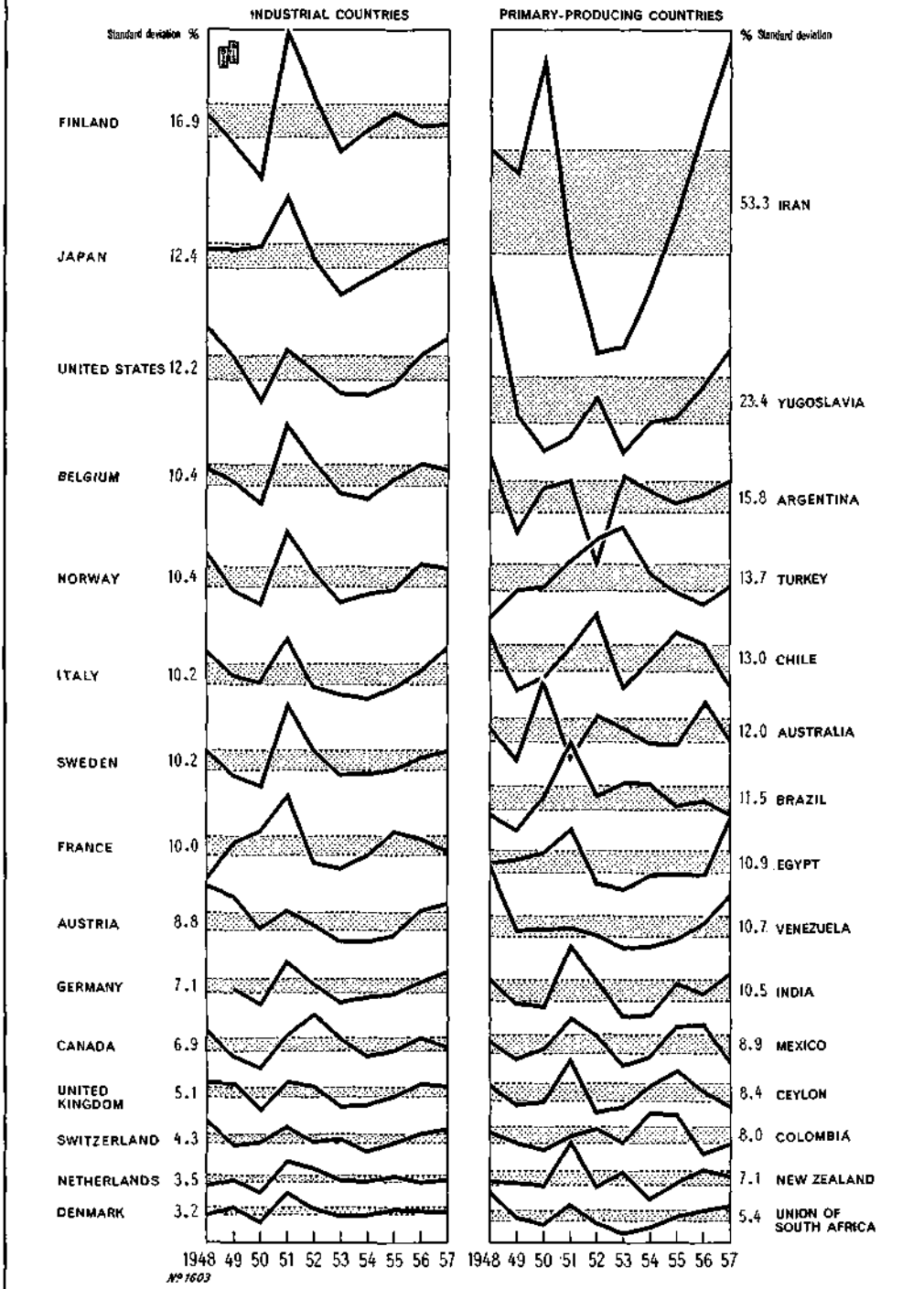
The maintenance of conditions of stability in non-industrialised countries is obviously dependent on a steady flow of imports of manufactured goods for consumption and investment. Since cyclical fluctuations in the prices of these goods are only moderate, the volume of imports that the non-industrialised countries are able to finance will be related to the prices and volume of their exports, to the flow of capital imports and to the availability of foreign exchange reserves and other forms of compensatory financing. The need to fall back at certain times on reserves in order to maintain a steady volume of imports will become greater when foreign exchange earnings from exports and the capital inflow become smaller, and vice versa.

The graph on the next page shows for the ten years from 1948 to 1957 the degree of variability of export proceeds in thirty countries at various stages of development.

Exports of most countries show a pronounced positive deviation from the trend line during 1951 and the average variability of export proceeds over the decade as a whole was greatly influenced by the extent of the "Korea fluctuation" during the years 1950 to 1952. The comparison between the average variability of exports from industrial countries and that of exports from primary-producing countries does not show (as might have been expected) a very clear positive correlation between a high degree of variability and a low degree of industrialisation. Except in the case of Yugoslavia and Iran (in which special conditions prevailed), the range of variation of the exports of industrial and non-industrial countries was about the same. While, however, there are six industrial countries with a degree of variability of 7 per cent. or less, only two semi-industrial countries figure in this group. At the other end of the scale there are three industrial countries for which the range of variability is 12 per cent. or more, as against six non-industrial or semi-industrial countries (including Yugoslavia and Iran).

* National Industrial Conference Board, Studies in Business Economics, No. 61, "Production costs here and abroad".

Export proceeds of industrial countries and primary-producing countries.
Fluctuations in yearly values, 1948 to 1957.*



* Note: In each half of the graph the countries are placed in ascending order of average variability of export values over the decade, as measured by the standard deviation from the trend. The average deviations for the decade are shown by the breadth of the shaded stripe, and the actual deviations of annual values from the trend are indicated by the line. The scale used in plotting the lines and the stripes is the same in both sections of the chart.

The main factor accounting for the relative stability shown by the commodity exports of the primary producers was the absence, during 1948-56, of any marked fluctuations in the level of economic activity simultaneously affecting the whole of the industrially developed part of the world. The 1949 recession was not severe or long enough to have any pronounced influence on raw-material prices; and during the American recession of 1953-54 economic expansion in western Europe acted as a sustaining factor. The reappearance in 1957-58 of a widespread recessionary movement depressed prices of raw materials to a marked extent. However, the maintenance of an ample flow of capital exports and international aid to non-industrialised countries has prevented the emergence of secondary deflationary effects. Two clearly distinguishable phases may thus be observed, during the ten-year period, in which fluctuations on the demand side affected the price and volume of exports of raw materials and basic foodstuffs — an expansionary phase during the Korea boom (i.e. the second half of 1951 and the first half of 1952) and a phase of contraction during the recession of 1957-58. Except in these phases, movements in price and volume were governed by specific factors affecting the supply/demand relationships for individual products or groups of products or the supply position in individual exporting countries.

This diversity of behaviour also helped to even out fluctuations in total export proceeds in the case of countries with only a fairly small range of goods. Thus, in the case of Ceylon, for instance, fluctuations in the price of rubber (from a low point in 1949 to a peak in 1951 and a new low in 1953-54) were largely offset by contrary fluctuations in the price of tea. Such a levelling-out of fluctuations may also take place in regard to individual products, in that changes in the quantity exported (due to varying crop results) may be offset by counter-movements in the price. Coffee provides a notable example of this mechanism.

The completely different development of the oil exports of two important producing countries (Venezuela and Iran) shows the extent to which the destabilising effect of a lack of variety in exports may be magnified or offset by other factors, such as international cartels or price-maintenance agreements. The international oil companies have kept the price of crude oil under firm control. The position of marginal suppliers has been assumed by the U.S. producers in times of strong demand or when disturbances have affected oil supplies from the Middle East, and this has kept the value of Venezuelan exports stable. In Iran, on the other hand, the main destabilising influence was the Abadan crisis. With regard to the latter case it may be pointed out that in about half the countries with highly variable export values the instability was ascribable to purely domestic circumstances, i.e. to political vicissitudes or to the impact of abrupt changes in development policies, such as occurred in Turkey, Argentina, Egypt, Yugoslavia and Iran.

The presence of Japan among the countries in the upper third of the chart illustrates the influence that the direction of exports exerts on the stability of export flows. Japan does not belong to any preferential system and

directs its exports mainly to Asiatic countries, and the instability which such conditions impart to Japanese exports (and to those of other countries similarly placed) was brought out clearly during the Korea boom, when the Asiatic countries, in the import spree that followed the improvement in their foreign exchange positions, turned mainly to Japan for supplies of textiles and other manufactures.

Among other industrial countries with a relatively high degree of variability of export values are the United States, Belgium, Sweden, Norway and Finland. The variability of the earnings of the four European countries is largely accounted for by the fact that their main exports are highly responsive, in terms both of price and of volume, to cyclical fluctuations in demand, this being true of exports of iron ore, steel and non-ferrous metals, as well as of timber, pulp and paper. The exports of the United States rose sharply during the Korea boom. Since then, the main sources of instability have been "special-category" and surplus-commodity exports and also in part exports of raw materials and certain semi-manufactured products, which are very responsive to changes in the level of overall demand abroad; on the other hand, exports of manufactured goods and of chemicals followed the trend line rather closely during the ten-year period, except for the 1951 peak.

* * *

In 1958 commercial policy in Europe was dominated by negotiations about the possibility of establishing a free trade area associating the countries belonging to the European Economic Community, which came into existence at the beginning of 1958, with the other eleven O.E.E.C. countries. These negotiations, which started in October 1957, had to be suspended about a year later, as the discussions had shown that no agreement could yet be reached on certain fundamental questions relating to the absence of a common external tariff, the harmonisation of social legislation and the institutional framework and voting rules. At the beginning of December 1958 the E.E.C. agreed to adopt the following measures in order to facilitate a resumption of negotiations and to attenuate for non-members the effects of the discrimination which would ensue from the 10 per cent. tariff reduction and the enlarged quotas which were to be introduced within the Community on 1st January 1959:

- (i) to introduce vis-à-vis all O.E.E.C. and G.A.T.T. countries and vis-à-vis non-G.A.T.T. countries enjoying most-favoured-nation treatment, on a temporary and autonomous basis, a 10 per cent. tariff reduction applicable to imports of industrial products subject to duties higher than the future external tariff of the Community and to non-liberalised agricultural products;
- (ii) to enter into bilateral negotiations with the other O.E.E.C. countries with a view to increasing quotas of non-liberalised industrial products by 20 per cent. (Within the Community quotas were not only to be raised by 20 per cent. on 1st January 1959 but had to be equivalent

to at least 3 per cent. of domestic output of the product concerned.) The first two such agreements were signed by France in April 1959 for a period of one year, the other party being the United Kingdom in one case and Switzerland in the other.

The work of the European Economic Community during the first year of its existence has been largely concerned with the setting-up of the administrative services of the different institutions and with the co-ordination of their activities. In compliance with Article 43 of the Rome Treaty a conference on agricultural policies was held at Stresa in July 1958, and the resolutions adopted show that it is no longer possible to reach any satisfactory and durable solution of the special problems of agriculture at a national level. The European Investment Bank began its activities last year and has so far approved four loans for a total amount of \$24 million, most of the proceeds being intended to finance industrial projects in southern Italy. February 1958 marked the end of the transitional period of the European Coal and Steel Community, which is faced with serious difficulties owing to the widespread coal crisis.

Intra-European liberalisation, which had suffered a serious setback when France reverted to quantitative restrictions on all imports in June 1957, was raised to 89 per cent. again as a result of the French measure establishing 90 per cent. liberalisation with effect from 1st January 1959. France thus complied with the requirement established in 1955 by the O.E.E.C. Council, i.e. the attainment of 90 per cent. overall liberalisation and a minimum of 75 per cent. for each broad category. As not all countries have yet reached this target, the period of grace allowed them has been extended until June 1959. In Germany and Italy there was a slight reduction in the percentage of liberalisation owing to the introduction in the course of the year of quantitative restrictions on coal, in the case of Germany, and on some agricultural products, in the case of Italy, while the effect of the lifting of restrictions on some imports in Denmark, Germany, Norway, Switzerland and the United Kingdom was not sufficiently great to be reflected in the percentages shown in the table on the next page.

Definite progress was made in liberalisation vis-à-vis the dollar area. Four countries — Denmark, France, Norway and the United Kingdom — increased their percentages, the greatest change being that made by France, which raised its rate of liberalisation from nil to 50 per cent. The setback in the case of Germany was due entirely to the reintroduction of restrictions on coal imports. The re-establishment of convertibility at the end of 1958 would lose much of its meaning if European countries were to continue to discriminate against dollar imports, especially in view of the favourable development of the balances of payments and the reserve positions of nearly all the countries in question.

The Code of Liberalisation — which is to remain in force for an indefinite period — was automatically modified in several respects, in accordance with previous decisions, by the return to convertibility. Whereas during

O.E.E.C. countries: Liberalisation of trade.

Countries	Intra-European trade				Trade with the United States and Canada			
	1st January							
	1956	1957	1958	1959	1956	1957 ¹	1958	1959
in percentages								
Austria	89	90	90	90	8	40	40	45
Benelux countries	96	96	96	96	86	86	86	86
Denmark	78	86	86	86	55	55	55	66
France	78	82	0	90	11	11	0	50
Germany	91	92	93	91	68	90	94	78
Greece ²	95	95	95	96	99	99	99	99
Iceland ³	29	29	29	29	33	33	33	33
Ireland	90	90	90	90	15	15	15	15
Italy	99	99	99	98	24	39	68	68
Norway	75	78	81	81	0	84	87	91
Portugal	94	94	94	94	53	53	53	53
Sweden	93	93	93	93	64	68	68	68
Switzerland	93	91	91	91	98	99	99	99
Turkey	0	0	0	0	0	0	0	0
United Kingdom	85	94	94	95	56	59	62	73
Member countries combined ⁴	86	89	83	89	54	61	64	73

Note: In each case the liberalisation percentages show, in relation to a base period, the proportion of private imports from other O.E.E.C. countries, or from the United States and Canada, as the case may be, that was free from quantitative restrictions on the date in question. For intra-European trade 1948 has been taken as the base year, except in the case of Austria and Germany, for which the base periods are 1952 and 1949 respectively, and in that of the Benelux countries, which drew up a common liberalisation list in 1955 on the basis of that year. For trade with the dollar area the base period is 1953.

¹ 1st May. ² Autonomous measure not notified to the Organisation. ³ These percentages do not take account of the liberalisation of trade with other European countries undertaken in December 1956 nor of the measures adopted in February 1957 vis-à-vis the United States and Canada. ⁴ Excluding Greece and including the Benelux countries (whose liberalisation percentages have been calculated on the basis of 1948).

the period of existence of the E.P.U. a member country could temporarily suspend the application of measures of liberalisation if its deficit with the Union was increasing at a rate and in circumstances which it considered serious in view of the state of its reserves, a country can now suspend liberalisation measures vis-à-vis its European partners if its general balance of payments is developing in such a way as to jeopardise its reserves.

The difficulties of the less-developed countries were one of the main topics of discussion at the Thirteenth Session of the G.A.T.T. (held in Geneva in October–November 1958), at which the Contracting Parties set up three committees to decide on lines of action regarding:

- (i) the possibilities of further negotiations for the reduction of tariffs;
- (ii) the problems arising out of the widespread use of non-tariff measures for the protection of agriculture or for the maintenance of the incomes of agricultural producers;
- (iii) other obstacles to the expansion of trade, with particular reference to the importance of maintaining and increasing the export earnings of the less-developed countries.

Consultations concerning import restrictions applied for balance-of-payments reasons were conducted in 1958 with a number of further countries and were continued with Germany, which since 1957 has been considered as no longer justified in maintaining import restrictions to protect its foreign exchange reserves. During the discussions the Federal Republic announced that restrictions on a number of industrial products were to be removed on 1st January 1959 and most of the remaining restrictions a year later. This still leaves the controls on a variety of important agricultural products unchanged. At the Fourteenth Session, held in May 1959, Germany submitted a three-year programme providing for an acceleration of the liberalisation of certain products and requesting hard-core waivers for a few others and permission to maintain restrictions on agricultural products.

At the Thirteenth Session Switzerland, having completed its tariff negotiations, joined the G.A.T.T. as a provisional member and Cambodia declared its readiness to accede to the General Agreement and, pending formal accession, to apply its provisions de facto. The participation of these two countries does not increase the number of contracting parties, which remains at thirty-seven.

Among the fifteen countries which have been denying to Japan the benefit of the most-favoured-nation clause, India withdrew its reservations at the beginning of the Thirteenth Session, and as Japan was able to conclude trade agreements with Australia (with effect from July 1958) and New Zealand (in September 1958) discrimination by these three countries against Japanese goods has practically ceased.

* * *

It is a well-known fact that the mechanism of international trade and payments may be so disrupted during a recession — as a result of action restricting foreign competition or of flights of capital from threatened currencies — that, as was the case in the thirties, the effects of deflationary trends originating within the national economies are aggravated. If, on the other hand, capital movements, either instigated officially or induced by interest and profit-rate differentials, are such as to counter the adverse effect of a weakening of foreign demand on balances of payments, the flow of international trade will be maintained and will help to sustain the level of economic activity in the countries concerned.

It appears from developments in 1958 that the arrangements made in the financial field by the International Monetary Fund and other institutions, a suitable pattern of international liquidity holdings and the continuation by the United States of its aid and import policies despite its gold losses have prevented the contraction in international trade from having too damaging an effect on the countries whose export earnings fell as a result of a decline in foreign demand.

VI. Gold Production and Monetary Reserves.

The balance-of-payments developments which have been described in the preceding chapter resulted in very substantial movements in reserves during 1958, the effect of which was undoubtedly to strengthen the general international liquidity situation. The United States' gold stock declined by \$ 2,275 million, while its short-term liabilities to foreigners increased by a further \$1,001 million. European countries, on the other hand, increased their gold and short-term dollar holdings by \$3,704 million, while those of Canada and Japan also went up, by \$351 million and \$384 million respectively. In the other countries of the world taken as a whole, and excluding the gold reserves of the U.S.S.R. and other eastern European countries, gold and short-term dollar assets declined by \$447 million. As Venezuela's holdings alone fell by \$341 million, the net losses sustained by other non-industrialised and semi-industrialised countries only amounted to \$106 million. International institutions, whose gold and short-term dollars had declined by \$992 million in 1956-57, added moderately to their holdings last year, the International Monetary Fund benefiting from a small excess of repayments over drawings.

New gold production outside the U.S.S.R. increased by 3 per cent. over the 1957 figure and amounted, at \$35 per ounce, to \$1,065 million. Gold sales by the U.S.S.R. may be estimated at about \$210 million, so that altogether some \$1,275 million's worth of new gold came on to the markets last year. Official gold stocks outside the U.S.S.R. and other eastern European countries rose by \$895 million; this was 23 per cent. higher than the previous year's figure and easily the largest increase in any year since the war.

Countries outside the United States (excluding the U.S.S.R. and other eastern European countries) added \$3,170 million to their gold reserves in 1958. As this was about two and a half times the amount of new gold that became available during the year, the price of gold on world markets was markedly higher than in 1957. During the greater part of 1958 quotations for bar gold in London were above the Federal Reserve Bank of New York's selling price of \$35.08 $\frac{3}{4}$ and so most of the burden of supplying the extra gold required by European countries fell on the U.S. gold stock. At the end of 1958 and early in 1959 the London gold price eased somewhat, but early in April 1959 it began to rise again and soon went once more above the U.S. selling price.

In the first four months of 1959 the U.S. gold stock declined by a further \$224 million to \$20,358 million at the end of April. On the other hand there were substantial increases in the gold reserves of Italy, the Netherlands and Japan during this period.

* * *

World gold production.

Countries	1929	1940	1946	1950	1955	1956	1957	1958
	weight, in thousands of fine ounces							
Union of South Africa . . .	10,412	14,046	11,927	11,664	14,601	15,897	17,032	17,666
Canada	1,928	5,333	2,849	4,441	4,542	4,384	4,434	4,537
United States	2,045	4,799	1,625	2,375	1,891	1,838	1,917	1,797
Australia	427	1,644	824	870	1,049	1,030	1,084	1,102
Ghana	208	886	586	689	689	638	790	853
Southern Rhodesia	561	826	545	511	525	535	537	555
Philippines	163	1,121	1	334	419	406	380	409
Belgian Congo	158	562	332	339	370	374	374	385
Mexico	655	883	421	406	363	350	346	375*
Colombia	137	632	437	379	361	438	325	332
Japan	335	667	40	158	289	295	303	308
Nicaragua ¹	12	163	204	230	229	216	199	206
India	364	289	132	197	211	209	179	170
Peru	120	281	158	148	171	159	165	160*
Brazil ²	112	150	140	131	110	122	120	117
Chile	33	335	231	192	123	94	104	100*
Total listed	17,670	32,817	20,452	23,064	25,982	26,985	28,189	29,072
Other countries ³	830	4,183	1,248	1,636	1,418	1,415	1,411	1,328
Estimated world total ³ . .	18,500	37,000	21,700	24,700	27,400	28,400	29,600	30,400*
Value of estimated world total, at \$35 per fine ounce . . .	in millions of U.S. dollars							
	650 ⁴	1,295	760	865	960	995	1,035	1,065

* Estimated or provisional figure.
¹ Exports, representing about 90 per cent. of total. ² Excluding alluvial gold production, which is small.
³ Excluding the U.S.S.R. ⁴ At the official price of \$20.67 per fine ounce then in effect, \$382 million.

For the fifth year in succession, the amount of gold produced in the world outside the U.S.S.R. increased. Total output is estimated to have amounted to 30.4 million ounces, the value of which, at \$35 per ounce, was \$1,065 million, compared with 29.6 million ounces worth \$1,035 million in 1957. Once again the rise in production came mostly from the South African mines, whose output rose by 634,000 ounces to a new record of 17.7 million ounces and accounted for just over 58 per cent. of the total of new gold mined outside the U.S.S.R. Elsewhere, there were increases in production of 103,000 ounces in Canada and 63,000 ounces in Ghana. In the latter country output has risen by one-third since 1956.

In 1958 the total quantity of ore milled by the South African gold industry declined for the second year in succession and amounted to 65.5 million tons, which was rather more than half a million tons below the 1957 figure. The larger quantity of gold produced was therefore the result of a further increase of 4½ per cent. in the yield from each ton of ore milled, which, at 5.228 dwt., was the highest for a quarter of a century. For the industry as a whole, the rise in working costs of 3½ per cent. per ton milled was the smallest for several years and its average working profits per ton

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
1953	3.693	49s. 5d.	36s. 6d.	11s. 11d.	58.8	34.9 ²	12.3	18.2
1957	5.000	62s. 10d.	45s. 4d.	17s. 6d.	66.1	57.8 ²	17.5	36.7
1958	5.228	65s. 9d.	46s. 11d.	16s. 10d.	65.5	61.4 ²	18.9	42.6

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£1.8 million in 1953, SA£33.3 million in 1957 and SA£37.7 million in 1958.

milled were over 7½ per cent. higher than in 1957, while total working profits rose again, from £57.8 million to £61.4 million. Dividends paid out, at £42.6 million, were again higher too and absorbed over 69 per cent. of total working profits. Since 1953, when only 52 per cent. of profits was received by shareholders, the absolute amount paid out by the industry in dividends has risen by more than 130 per cent., while average costs have gone up by a little more than 28 per cent., average working profits by 58 per cent. and total working profits by nearly 76 per cent. For the industry as a whole, therefore, the past five years — during which output has risen by 48 per cent. — have been very satisfactory. In his speech at the 1958 annual meeting of the Transvaal and Orange Free State Chamber of Mines, the President said that “production in the newer areas is likely to continue for some years to increase at a rate exceeding that of the decline in the older mines and the achievement of the industry last year is by no means its ultimate peak”.

Last year, for the first time, the amount of gold (8.7 million ounces) produced by those mines belonging to the Transvaal and Orange Free State Chamber of Mines which are also uranium producers was greater than the volume of output from mines that yield only gold (8.4 million ounces). In the former group average working profits per ton milled rose from 25s.5d. to 26s.3d., while in the latter group the figure was 13s.8d. compared with 12s.3d. the year before. Of the thirty-two mines which are members of the Transvaal and Orange Free State Chamber of Mines and which produce only gold, nineteen showed lower average working profits than in 1957, while the same is true of thirteen out of the twenty-four members of the Chamber of Mines producing gold and uranium jointly. As in 1957, altogether seven mines were working at a loss, all but one of which made profits from uranium that more than covered their losses on gold. There were twenty mines where gold production was either unprofitable or yielded less than an average of 4s. per ton of ore milled; this was one less than the year before and it meant that output from what may be considered as marginal mines accounted for 20 per cent. of the Union's total production, compared with over 23 per cent. in 1957 and about 27 per cent. in 1956.

Although the quantity of ore milled in South Africa was smaller last year than in 1957, the labour force employed by the industry was somewhat larger. The average number of native employees at work was 332,100, compared with 327,700 in 1957. At the end of the year the seasonal decline in the native labour force was smaller than usual and in February 1959 it numbered over 369,000, compared with 327,000 a year earlier. The European labour force was roughly stable at a little over 40,000.

Uranium oxide production in South Africa in 1958 rose by 1.1 million lbs. to a total of 12.5 million lbs. The total amount of uranium which the Combined Development Agency, which purchases South African output on behalf of the United States and the United Kingdom, has agreed to buy from the Union is at present 13.9 million lbs. per annum. Profits earned by members of the Transvaal and Orange Free State Chamber of Mines from uranium increased from SA£33.3 to 37.7 million.

Two countries have announced increases in the subsidies paid to their gold producers during the period under review. In June 1958 the Canadian Government raised the subsidy payments to gold producers for the years 1958 to 1960 by 25 per cent. Previously, under the Emergency Gold Mining Assistance Act of 1948, Canadian producers with average costs of between Can.\$26.50 and Can.\$45 per ounce received subsidies equal to two-thirds of the amount by which their costs exceeded Can.\$26.50 per ounce, while those whose costs were over Can.\$45 per ounce were paid a flat subsidy of Can.\$12.33 per ounce. Under the new arrangements the amounts that would have been payable under the previous scales of assistance are calculated and the sums thus obtained are increased by 25 per cent. It is expected that the total of subsidy payments will rise from Can.\$8.5 million to about Can.\$12 million. In the first week of May 1959 the Australian Federal Government announced its intention of introducing legislation to increase certain categories of subsidy to Australian gold producers. It is proposed that with effect from 30th June 1959 the maximum rate of subsidy, payable to marginal mines, should be increased from 55s. (Australian) to 65s. per ounce and the subsidy for small gold producers from 40s. to 48s. per ounce.

* * *

Adding together production worth \$1,065 million outside the U.S.S.R. and sales by the U.S.S.R. estimated to have totalled some \$210 million, the amount of fresh gold which was offered on the world's markets in 1958 was worth about \$1,275 million. Allowing for the approximate character of these figures, last year's new gold supplies were roughly the same as those of 1957. The additions made to official stocks, other than those of the U.S.S.R. and the other eastern European countries, were, however, much larger than the year before and may be estimated at \$895 million. This is easily the largest amount of gold added to the world's reserves in any year since the war — 1957 was the next best year — and the proportion of fresh supplies which went to buttress international liquidity was 70 per cent. After allowing \$200

Estimates of "disappeared gold".

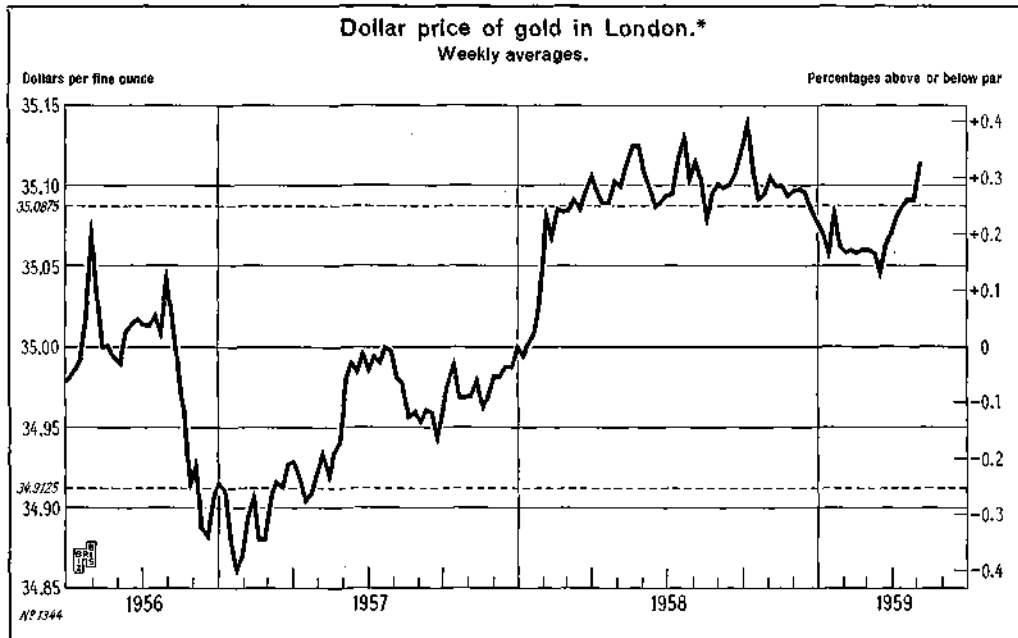
Items	1951	1952	1953	1954	1955	1956	1957	1958
	In millions of U.S. dollars							
Gold production ¹	840	870	865	915	960	995	1,035	1,065
Sales by the U.S.S.R.	—	—	75	75	75	150	260	210
Less: Increase in official gold reserves ¹	-175	-335	-435	-645	-660	-505	-725	-895
"Disappeared gold"	665	535	505	345	375	640	570	380
Accounted for by								
Industrial uses ²	150	170	160	170	190	200	210	200
Private hoarding ³	515	365	345	175	185	440	360	180

¹ Excluding the U.S.S.R. and other eastern European countries. ² Estimates. ³ Residual figure.

million for the value of gold used by industry for various purposes, the residual amount which may be considered to have been added to private hoards is about \$180 million. However rough such estimates may be, the fact that hoarding was on a much smaller scale than in either of the two preceding years is clear enough. Among factors which may have caused the hoarding demand to decline were the June 1958 gold-guaranteed government loan in France, political disturbances in the Middle East and lower incomes in the Far East due to the fall in raw-material prices.

On the London gold market the course of prices during the period under review was dominated by the fact that a number of European countries with balance-of-payments surpluses were adding substantial amounts of gold to their monetary reserves. In the first half of January 1958 quotations in London were at or even slightly below \$35 per ounce, but by early February they had risen above \$35.08 per ounce and from then until the end of March there was a gradual further hardening of prices to above \$35.10. From 23rd April onwards until almost the end of the year, except for a few days in June and again in August, the price of gold in London at the daily "fixing" was constantly above the U.S. selling price of \$35.08¾. The highest price at the fixing in 1958 — which was also the highest since the market reopened in 1954 — was just above \$35.14 on 8th October.

The period of strongest demand for gold came in the second and third quarters of 1958, when the U.S. gold stock declined by over \$1.5 milliard; it coincided with the time of the year when the U.S.S.R. is usually absent from the market and also with a period when there was a wide gap between interest rates in the United States and those in Europe. Towards the end of the year the price of gold began to decline again. It fell from just above \$35.10 in mid-December 1958 to below the U.S. selling price on 23rd December and had reached about \$35.05 by the end of the second week of January 1959. From then until the end of March 1959 quotations were fairly steady around a mean of about \$35.06. This development was partly the result of gold sales by the U.S.S.R., which began again in November 1958, but another important factor was dollar payments by certain countries to the U.S. Government and the International Monetary Fund. At the very least these payments reduced the demand for gold somewhat;



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

in fact they may have led to some sales of gold. For instance, between 31st December 1958 and 31st March 1959 the United Kingdom paid almost \$400 million to the U.S. and Canadian Governments and to the International Monetary Fund.

Early in April 1959, when the factors mentioned above were no longer at work, quotations for gold in London began to rise and soon went above the U.S. selling price again. In the middle of May quotations were as high as \$35.14 per ounce.

The year 1958 was the first since the reopening of the London gold market in which prices there, and in the other principal centres, were for most of the time higher than the fixed price of \$35.08¾ at which the Federal Reserve Bank of New York stands ready to sell to other central banks. This situation, which resulted in substantial foreign purchases of gold in the United States, was due to the fact that total demand for gold outside the United States, and in particular from western European countries, was greatly in excess of what was available from new production and from sales by the U.S.S.R.

Turnover on the London gold market was substantially lower in 1958 than it had been in 1957. This was because, with prices above \$35 per ounce for most of the year, debtor countries in the European Payments Union no longer bought gold for the monthly settlements. With the liquidation of the European Payments Union at the end of 1958 and its replacement by the European Monetary Agreement, the loss of this particular kind of business has become permanent. On the other hand, the unification of the transferable and American account sterling rates (which was accompanied by the disappearance of registered sterling, the function of which had been to provide

convertible sterling accounts for those living outside the dollar area and outside the sterling area) should help to bring more business to the London gold market. With the disappearance of the transferable sterling market the continental centres in which, for instance, the bulk of U.S.S.R. sales were formerly made, precisely in order to benefit from the cheaper prices for sterling which they quoted, may be expected to lose some business to London. Turnover on the London market should also be increased in future as a result of the removal, with effect from 20th March 1959, of restrictions on forward dealings in gold. Previously, unless special permission was given by the exchange control authorities, all transactions had to be for delivery and payment within two working days.

On 20th April 1959 the South African Minister of Finance announced that the South African Reserve Bank would in future sell 400-ounce gold bars to private purchasers outside the sterling area if the prices offered were better than could be obtained on the London market. Individual purchases will have to be for at least 25,000 ounces. The Minister stated that the object of this move was "to encourage ownership of gold by private people".

* * *

The rise of \$895 million in gold reserves outside the U.S.S.R. and the other eastern European countries brought them to a total of \$39.9 milliard at the end of 1958. The outstanding features of the year were the decline of \$2.3 milliard in the U.S. gold stock to \$20.6 milliard and the net increase of \$3.2 milliard to a total of \$19.3 milliard in the reserves of the other countries shown in the table and of the international institutions. European countries added \$2.9 milliard to their gold reserves. The United Kingdom alone is estimated to have acquired \$1,250 million, a sum approximately equal to the total fresh supplies that came on to the market during 1958. Italy's gold reserve increased by \$634 million, or 140 per cent., notwithstanding a payment of \$45 million to the International Monetary Fund on account of the gold tranche of its quota. Two other European countries, Belgium and the Netherlands, repaid I.M.F. drawings to the extent of \$50 million and \$69 million, but their gold reserves nevertheless showed a net increase over the year of \$357 million and \$306 million respectively. Other substantial gains were made by Switzerland (\$207 million), Germany (whose gold holdings, however, rose by only \$97 million compared with \$1,048 million in 1957) and Austria (\$91 million). The healthier state of European reserves, together with the very limited exchange losses sustained by non-industrialised countries despite the fall in their export incomes, explains the rise of \$152 million in the International Monetary Fund's gold holdings.

Apart from the United States, there were few countries whose gold holdings declined much. As already mentioned, the level of gold prices during 1958 led to deficits with the European Payments Union being settled in dollars, and the Union's gold holdings therefore declined by \$128 million.

Gold reserves of central banks and governments
(including International Institutions).

Countries or institutions	End of						Change during 1958
	1938	1945	1950	1956	1957	1958	
	In millions of U.S. dollars						
European countries							
United Kingdom ¹	2,877	1,980	2,900	1,800	1,600	2,850	+ 1,250
Italy	193	24	256	338	452	1,086	+ 634
Belgium	780	733	587	928	913	1,270	+ 357
Netherlands	999	270	311	844	744	1,050	+ 306
Switzerland	701	1,342	1,470	1,676	1,718	1,925	+ 207
Germany	29 ²	0	0	1,494	2,542	2,639	+ 97
Austria	88 ³	0	50	71	103	194	+ 91
Portugal	86	433 ⁴	192	448	461	493	+ 32
France	2,757	1,550	523 ⁵	861 ⁵	575 ⁵	569 ⁵	+ 14
Denmark	53	38	31	31	31	31	0
Finland	26	3	12	35	35	35	0
Greece	27	28	2	10	13	13	0
Iceland	1	1	1	1	1	1	0
Ireland	10	17	17	16	18	18	0
Turkey	29	241	150	144	144	144	0
Norway	84	80	50	50	45	43	- 2
Sweden	321	482	90	266	219	204	- 15
Spain	525 ⁶	110	110	116	89	60	- 29
Other countries							
Australia	6	53	88	107	126	162	+ 36
Japan	230	125	128	128	128	159	+ 31
Colombia	24	127	74	57	62	72	+ 10
Iran	26	131	140	138	138	141	+ 3
Belgian Congo	6	16	23	122	81	83	+ 2
Brazil	32	354	317	324	324	325	+ 1
Chile	30	82	40	46	40	40	0
Ecuador	3	21	19	22	22	22	0
Guatemala	7	29	27	27	27	27	0
India	274	274	247	247	247	247	0
Lebanon	—	2	20	77	91	91	0
New Zealand	23	23	29	33	33	33	0
Pakistan	—	—	27	49	49	49	0
El Salvador	7	13	23	28	31	31	0
Thailand	—	86	118	112	112	112	0
Uruguay	73	195	236	186	180	180	0
Venezuela	54	202	373	603	719	719	0
Indonesia	80	201 ⁷	209	45	39	37	- 2
Union of South Africa	220	914	197	224	217	211	- 6
Peru	20	28	31	35	26	19	- 9
Egypt	55	53	97	188	188	174	- 14
Mexico	29	294	208	167	180	143	- 37
Canada	192	361	590	1,113	1,115	1,078	- 37
Cuba	1	191	271	136	136	60	- 56
Argentina	431	1,197	216	224	126	53	- 73
United States	14,592	20,083	22,820	22,058	22,857	20,582	-2,275
International institutions							
Bank for International Settlements	14	39	167	179	185	339	+ 174
International Monetary Fund	—	—	1,494	1,692	1,180	1,332	+ 152
European Payments Union	—	—	—	268	254	126	- 128
Total listed above	26,014	32,426	34,981	37,766	38,598	39,312	+ 714
Others (excl. U.S.S.R. and other eastern European countries)	406 ⁸	1,344 ⁸	829 ⁸	479	372	553	+ 181
Estimated world total (excl. U.S.S.R. and other eastern European countries)⁹	26,420⁸	33,770⁸	35,810⁸	38,245	38,970	39,865	+ 895

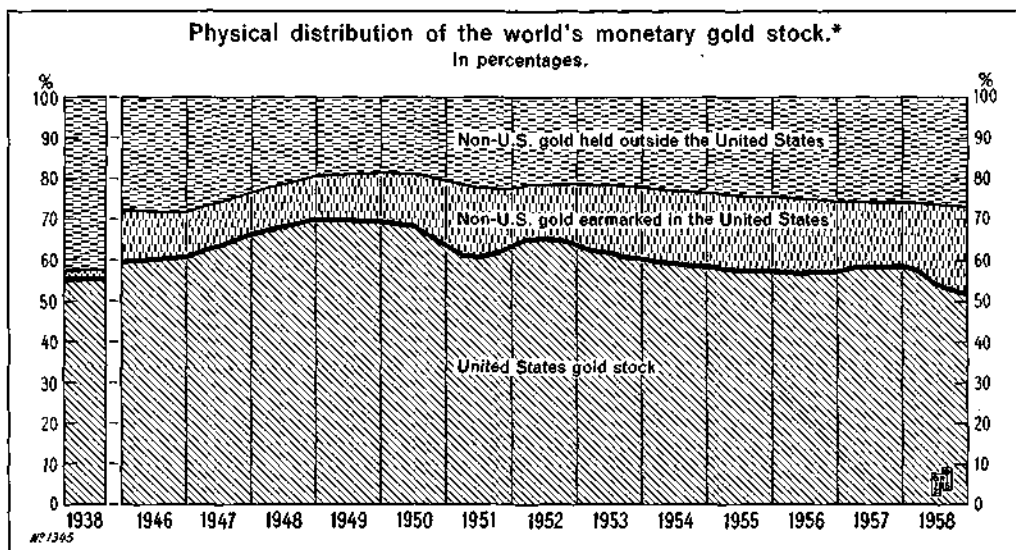
¹ Beginning with 1945, estimates of the U.S. Treasury and the Board of Governors of the Federal Reserve System. ² Pre-war Germany. ³ Beginning of March 1938. ⁴ End of 1946. ⁵ Reported holdings of the Bank of France only. ⁶ April 1938. ⁷ March 1946. ⁸ Including eastern European countries other than the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

Argentina's gold loss of \$73 million reflected the steady deterioration which took place in its external and internal position, a deterioration which led finally, after some months of speculation, to the implementation — with the aid of foreign loans — of a stabilisation programme at the very end of the year.

In the first quarter of 1959 the U.S. gold stock declined by \$96 million, owing partly to purchases of \$50 million by Japan. In April the gold loss amounted to \$128 million, and the U.S. gold stock stood at \$20,358 million at the end of that month. Apart from Japan, countries whose gold reserves increased during the first three months of 1959 included the Netherlands (\$114 million) and Italy, while the gold holdings of the Belgium-Luxemburg Economic Union declined by \$24 million.

At the end of 1958 the total of the gold reserves shown in the table was above the end-of-1945 level by \$6.1 milliard, or 18 per cent. This rise compares with estimated total gold supplies, from new production and sales by the U.S.S.R., of \$12.5 milliard during the period 1946-58. Of the increase in total gold reserves since the end of 1945, \$0.5 milliard has been added to the U.S. stock and the remaining \$5.6 milliard to the reserves of other countries and of international institutions, which have risen during this period by just over 40 per cent. The U.S. share of the total holdings shown in the table has declined from about 60 per cent. at the end of 1945 to just over 51 per cent. at the end of 1958.

In adding \$5.6 milliard to their gold stocks since the end of the war, countries other than the United States, together with the international institutions, have taken \$4.2 milliard, or over 75 per cent. in the form of gold earmarked for their accounts in the United States. At 31st December 1958 total earmarked gold in the United States amounted to \$8.5 milliard — rather more than 21 per cent. of total gold stocks shown in the table. Thus official gold holdings physically located in the United States at that date totalled \$29.1



* Including international institutions; but excluding the U.S.S.R. and, from 1957 onwards, other eastern European countries.

milliard, or about 73 per cent. of all gold reserves outside the U.S.S.R. and other eastern European countries. The remaining 27 per cent., worth \$10.7 milliard, was held outside the United States. These proportions are about the same as they were at the end of 1945, although they have varied somewhat during the years between, as appears from the graph. Since 1949, however, when gold held outside the United States represented only 19 per cent. of the total, official stocks in other countries have steadily increased and there has been a corresponding relative fall in the total stocks held officially in the United States, attributable to a decline of \$4 milliard in the U.S. gold stock.

Gold and short-term dollar holdings of countries other than the United States and of international institutions rose by no less than \$4,171 million in 1958, compared with an increase of only \$147 million the year before. As can be seen from the table on page 170, their gold reserves alone went up by \$3,170 million, so that the additions to their short-term dollar assets amounted to \$1,001 million. Of this latter amount, \$822 million was added to the holdings of foreign official institutions and banks and \$179 million to other foreign holdings. Looking at the figures of short-term dollar assets from a geographical standpoint, those of western European countries increased by \$568 million, Canada's by \$396 million, Asia's by \$259 million and the international institutions' holdings by \$27 million. On the other hand, Latin

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		
	1956	1957	1958	1956	1957	1958
	in millions of U. S. dollars					
Continental western Europe ² . . .	14,135	14,755	17,609	+ 921	+ 620	+ 2,954
Sterling area	3,934	4,002	4,892	+ 232	+ 68	+ 890
of which United Kingdom	2,812	2,875	3,725	+ 212	+ 63	+ 850
Canada	2,629	2,738	3,089	+ 456	+ 109	+ 351
Latin America	4,123	4,368	4,008	+ 334	+ 245	- 360
of which Venezuela	1,058	1,554	1,213	+ 390	+ 496	- 341
Asia	2,795	2,324	2,641	+ 179	- 471	+ 317
of which Japan	1,145	714	1,098	+ 124	- 431	+ 384
All other countries	367	390	330	- 14	+ 23	- 60
Total for all countries ³	27,983	28,577	32,569	+ 2,108	+ 594	+ 3,992
International institutions ⁴	3,144	2,697	2,876	- 545	- 447	+ 179
Grand total	31,127	31,274	35,445	+ 1,563	+ 147	+ 4,171

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 Excluding gold reserves of the U.S.S.R. and other eastern European countries. ⁴ Including the International Bank for Reconstruction and Development, the International Monetary Fund, the United Nations Organisation and other international organisations except the Bank for International Settlements and the European Payments Union, which are included under "Continental western Europe".

American holdings declined by \$174 million and those of other countries not already mentioned by \$75 million.

Europe's gold and short-term dollar holdings went up by \$2,854 million, four and a half times as much as in the year before; moreover this massive gain was more widely distributed amongst the individual European countries than were the smaller gains of 1956 and 1957. Changes in the reserve positions of individual European countries are shown in the table on page 174 and comment on them is reserved until then. Outside Europe there were only three countries where gold and short-term dollar holdings changed substantially, and they are each shown separately in the table. The further rise of \$351 million in Canadian gold and short-term dollar assets — which was entirely a rise in dollar assets, since the Bank of Canada's gold reserve declined by \$37 million — was due in large part to substantial borrowing on the U.S. capital market. The rise of \$384 million in Japan's gold and short-term dollar holdings, notwithstanding net repayments of foreign loans totalling \$118 million, almost wiped out the loss sustained in the preceding year and was the result of a sharp fall in imports. Venezuela's reserves had benefited in 1957 from large special payments made by foreign oil companies; last year this exceptional item did not recur and, in addition, there were heavy government out-payments on account of debts outstanding. At the end of 1958 a stand-by agreement, valid until the end of April 1959, was concluded between Venezuela and a group of European and American banks for an amount of \$225 million; but the outflow of foreign exchange had already stopped in the last quarter of the year and, with foreign oil companies' earnings now more heavily taxed than before, it seems that the loan may not have to be taken up.

It is noticeable that the combined gold and short-term dollar holdings of all other Latin American countries fell by only \$19 million in 1958, compared with a decrease of \$251 million in 1957, despite the fact that these countries' net drawings on the International Monetary Fund declined from \$157 to 58 million. Argentina's gold and short-term dollar assets fell by \$60 million.

Foreign holdings of U.S. Government bonds and notes with original maturities of more than one year (which are not included in the dollar assets shown in the table) rose slightly during 1958 from \$1,442 to 1,478 million. The portfolios of the international institutions increased by \$273 million, while Canadian holdings fell by \$116 million and those of Cuba and Switzerland by \$68 million and \$52 million respectively.

Reverting to Europe, the following table shows changes in the net reserve positions and the I.M.F. positions of fifteen countries. The column headed "net reserves" includes, in addition to gold and dollar holdings (which are far and away the largest items in the reserves of all the countries shown), other foreign exchange assets and liabilities as well. Creditor and debtor positions in the European Payments Union, however, have been omitted. This is because, with the liquidation of the Union in December 1958, to have included them in the end-of-1958 figures would have given a misleading

impression of how much these countries had available for use as monetary reserves in 1959. And if the E.P.U. balances were left out of the 1958 figures, it was scarcely possible to include them in the 1956 or 1957 figures if the different years were to be comparable.

European countries: Reserve positions.

Countries	End of year	Net reserves	Net I.M.F. position	Net reserves plus or minus net I.M.F. position	Credit facilities in I.M.F.	Net reserves plus credit facilities in I.M.F.
Austria	1956	392	13	405	63	455
	1957	489	13	502	63	552
	1958	655	13	668	63	718
Belgium-Luxemburg . . .	1956	951	57	1,008	292	1,243
	1957	1,003	7	1,010	242	1,245
	1958	1,325	57	1,382	292	1,617
Denmark	1956	90	7	97	75	165
	1957	136	— 26	110	43	179
	1958	205	—	205	68	273
Finland	1956	55	6	61	44	99
	1957	63	10	73	48	111
	1958	143	10	153	48	191
France	1956	1,142	131	1,273	656	1,798
	1957	364	— 131	233	394	758
	1958	687	— 262	425	263	950
Germany	1956	3,566	83	3,649	413	3,979
	1957	4,464	83	4,547	413	4,877
	1958	5,138	147	5,285	477	5,615
Greece	1956	193	—	193	—	193
	1957	188	—	188	—	188
	1958	166	—	166	—	166
Italy	1956	1,264	—	1,264	—	1,264
	1957	1,496	—	1,496	—	1,496
	1958	2,215	45	2,260	45	2,260
Netherlands	1956	904	69	973	344	1,248
	1957	953	—	953	275	1,228
	1958	1,335	69	1,404	344	1,679
Norway	1956	157	13	170	63	220
	1957	155	13	168	63	218
	1958	210	13	223	63	273
Portugal	1956	693	—	693	—	693
	1957	685	—	685	—	685
	1958	708	—	708	—	708
Sweden	1956	463	25	488	125	588
	1957	445	25	470	125	570
	1958	471	25	496	125	596
Switzerland	1956	1,785	—	1,785	—	1,785
	1957	1,885	—	1,885	—	1,885
	1958	2,053	—	2,053	—	2,053
Turkey	1956	— 5	— 4	— 9	39	34
	1957	— 33	— 11	— 44	32	— 1
	1958	14	— 28	— 14	15	29
United Kingdom	1956	2,172	— 329	1,843	971	3,143
	1957	2,374	— 334	2,040	966	3,340
	1958	3,105	— 318	2,787	982	4,087

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 returns or other official sources. Figures have been taken from national sources. 2. Net I.M.F. position is gold subscription minus net drawings. 3. 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.

The net reserve position of every country shown in the table, with the exception of Greece, strengthened during 1958 and in most cases the reserve increases were substantial. In addition, the net I.M.F. positions of Belgium, Denmark, the Netherlands and, to a slight extent, the United Kingdom improved during the year. The first three of these countries repaid drawings made in 1957, while the United Kingdom's position benefited from a drawing of sterling by South Africa. Two of the countries whose positions at the end of 1957 were particularly weak — Denmark and Finland — showed the largest relative increases in net reserves during 1958. Germany's reserves again rose substantially, though less than in 1957, and they were no longer accumulating so fast or in a way that put a strain on its neighbours. This must be attributed partly to the improvement that has occurred in some other countries' positions and partly to the "good creditor" policies pursued by Germany in 1958.

France's monetary reserves rose during 1958 from \$364 million to \$687 million. At the beginning of the year they were virtually exhausted except for the gold stock of the Bank of France. During January 1958 a stand-by agreement was concluded with the International Monetary Fund for an amount of \$131 million, but by the middle of June this had been fully used up. In the same month a government loan was issued which is redeemable at prices based on the Paris quotations for the Napoleon. Some \$170 million's worth of gold was sold on the market by persons wishing to obtain cash for their subscriptions to the loan, and the reinforcement of the monetary reserves which resulted gave the country a further breathing space.

Towards the end of the year, in November and more especially December 1958, a devaluation began to be expected and this led to some outflow of foreign exchange; for instance, the French deficit in the E.P.U. rose from \$47 million in November to \$167 million in December 1958. When the devaluation took place, together with the other measures adopted at the same time, the outflow of funds was at once sharply reversed and since then the French reserves have increased steadily.

From official statements it would appear that the Exchange Stabilisation Fund was able during the first four months of 1959 to acquire more than \$800 million of foreign exchange. Taking this figure as a basis, it is possible to arrive at an approximate figure for the actual increase in French reserves during this period by deducting various payments or repayments of debt which are known to have been made. Firstly, settlement of the December 1958 deficit with the E.P.U. cost \$160 million. Secondly, during the first four months of 1959 the system of "ratissage" was abolished and the sums involved were repaid. "Ratissage", which consisted of the handing-over by the French commercial banks to the Exchange Stabilisation Fund of a part of their ordinary working balances in foreign currencies, was first introduced in November 1951 for E.P.U. currencies and was used every month until June 1955, when the French exchange position was strong enough for it to be abandoned. It was put into operation again in March

1957, and in November of that year was extended to the banks' dollar holdings. At the end of 1958 the amount owing in this way to the French commercial banks was \$340 million and four months later this had all been repaid. Deducting these two items from the figure of somewhat over \$800 million mentioned above, and allowing for the fact that other debts amounting to about \$100 million were repaid, it would appear that the net increase in the reserves during this period was rather more than \$200 million.

The United Kingdom's reserves rose consecutively in every month from October 1957 to November 1958. During the year 1958 the total increase was \$796 million, after allowing for \$196 million paid at the end of December to the U.S. and Canadian Governments in respect of post-war loans. In February 1959 it was announced that the undrawn half of the \$500 million loan granted by the Export-Import Bank in October 1957 was no longer required and it was accordingly cancelled. Following this, a first repayment was made in March of \$200 million out of the total of \$561 million drawn from the International Monetary Fund in December 1956. Repayment of the remainder, in monthly instalments of \$15 million, is scheduled to begin in January 1960. The stand-by credit of \$739 million granted to the United Kingdom by the Fund at the end of 1956 was renewed in December 1958 for a further year.

The first few months of 1959 saw some notable reserve developments. As already mentioned, the French position improved by over \$200 million during the first four months, notwithstanding substantial out-payments from the Stabilisation Fund. Germany's reserves declined by \$566 million in the first three months of the year; during this period advance payments of almost \$400 million for defence imports were made, \$34 million was paid to the United Kingdom in respect of support costs and foreign debt (mainly to the United States) totalling \$174 million was redeemed. On the other hand, there was an improvement of nearly \$300 million in the foreign exchange position of the German commercial banks. The United Kingdom's reserves rose by \$50 million in the first five months of the year, notwithstanding payments of \$362 million to the International Monetary Fund, \$162 million of which represented the gold part of the increased British quota. Italy's reserves rose by well over \$200 million in the first four months of the year, while those of the Netherlands increased by \$57 million.

The increase of £284 million in the United Kingdom's reserves during 1958 was accompanied by a much smaller increase, of £74 million, in its liabilities to other countries. This followed three years in which sterling balances had been reduced by altogether £433 million. Balances of countries outside the sterling area went up by £157 million, while those of countries within the sterling area, reflecting its larger deficit with the United Kingdom, declined by £83 million. The increase in the former figure was due mainly to a steady rebuilding by O.E.E.C. countries, as confidence in the pound strengthened, of balances in London, which by the end of 1958 stood at a record level of £372 million. The group of "other" non-sterling-area countries also added to its

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	351	622	1,170	.	.	2,397	3,567
1951	39	57	328	518	941	.	.	2,638	3,577
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	260	244	570	883	1,817	2,700	3,270
1958	48	24	372	283	727	880	1,737	2,617	3,344

¹ Excluding the sterling balances held by non-territorial organisations (mainly the International Monetary Fund), which amounted to £623 million at the end of 1958. ² Figures showing the division of sterling balances between the two groups of sterling-area countries, as at present constituted, are available only from the end of 1954 onwards.

holdings by £39 million and it seems very likely that Japan — the most important member of this group — built up its sterling balances in 1958. Inside the sterling area the colonial territories' balances scarcely changed over the year, or from quarter to quarter, but other sterling-area countries reduced their balances by £80 million, a fall of £114 million during the first nine months having been followed by a recovery of £34 million in the last quarter. In this group, sterling held by official institutions and banks in Australia went down by £85 million during the year, while there was a further fall of £81 million — to a new low point of £142 million — in the sterling assets of the Reserve Bank of India.

For the International Monetary Fund the year 1958 was very different from either of its predecessors. Drawings fell to \$338 million, while repurchases by member countries of their currencies rose very sharply to \$369 million, so that on balance \$31 million was repaid to the Fund. The biggest repurchases were those of Japan (\$125 million), the Netherlands (\$69 million), Belgium (\$50 million) and Denmark (\$26 million) — all in respect of drawings made in 1957. The largest drawing was that of \$131 million by France in the first half of the year. By geographical areas, European countries' net drawings were \$10 million, Asian countries repaid \$128 million net, Latin America drew \$58 million net and other countries \$29 million. An amount of \$86 million, or 25 per cent. of total drawings for the year, was drawn in non-convertible currencies. Deutsche Mark drawings amounted to \$65 million, sterling drawings to \$16 million and florin drawings to \$5 million.

Thus, while European countries, as was only to be expected from their balance-of-payments positions, had no need of the Fund's resources — except for France early in the year — and made repayments of earlier drawings,

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

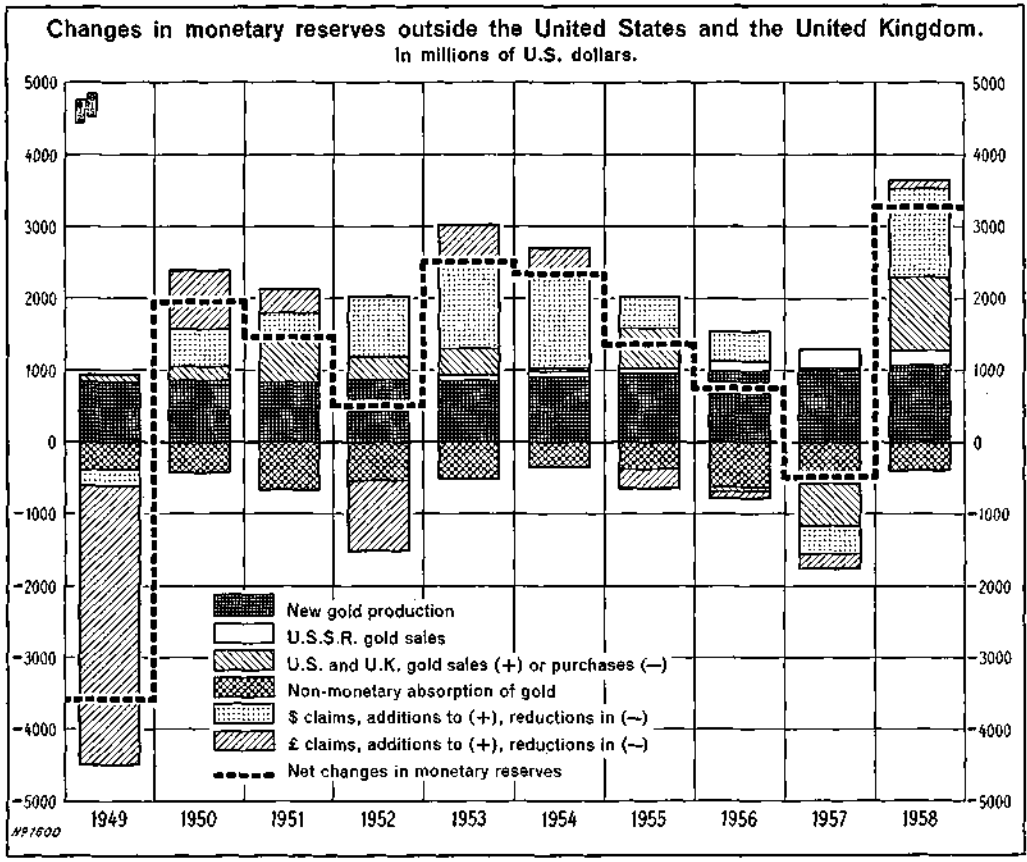
Years or periods	Drawings	Repayments ¹	Net drawings ²	Stand-bys		
				Agreed	Drawn or expired	Outstanding at end of period or year
in millions of U.S. dollars						
1947-49 . . .	777.2	19.7	757.5	—	—	—
1950-52 . . .	119.7	199.6	— 79.9	55.0	—	55.0
1953-55 . . .	319.5	762.8	— 443.3	62.5	55.0	62.5
1956	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
1958	336.0	369.1	— 31.1	338.8	297.6	911.3
Total . . .	3,224.0	1,528.4	1,695.6	1,716.6	805.3	911.3

¹ Repurchases and other countries' drawings. ² Drawings less repayments.

elsewhere in the world there was no compensatory rise in demand on the Fund's resources and, excluding Japan, which is an industrialised country and whose net drawings from the Fund over the two years taken together were nil, the rest of the world's net drawings totalled only \$84 million in 1958, compared with \$376 million in the previous year. The Fund's holdings of gold and convertible currencies increased during 1958 by \$168 million to \$2,696 million. This was due to three causes. Firstly, \$58 million was paid in gold on subscription account by members — including \$45 million by Italy and \$10 million by Spain. Secondly, although total repurchases exceeded total drawings by only \$31 million, the Fund added \$94 million in gold and convertible currencies to its assets as a result of exchange transactions with member countries. This was because drawings of convertible currencies totalled \$252 million, while repayments in convertible currencies amounted to \$348 million, the other \$21 million's worth of repayments having resulted from the drawings of sterling and florins that were made. Thirdly, the Fund's profit in gold and convertible currencies for 1958 was \$16 million. The improvement in the Fund's liquidity continued during the first quarter of 1959, when the United Kingdom repaid \$200 million of the \$561 million that it drew in December 1956, and its assets will be further very substantially reinforced later in 1959. At the 1957 annual meeting it was decided that the Fund's staff should undertake a study of the international liquidity position, and a year later, when the members of the Fund met at New Delhi in September 1958, this study — entitled "International Reserves and Liquidity" — was presented to them. Its main conclusion was that the international liquidity situation was not such as to give cause for anxiety about the future development of international trade and payments, provided two conditions were fulfilled. One was that countries should pursue prudent economic policies and the other that the Fund's resources should be large enough to enable it to provide assistance to its members on any scale that might be required in the future. It was therefore decided at New Delhi that the Fund's Executive Board should study the question of the desirable size of the Fund's resources. In December

1958 the Board recommended to member countries that most quotas should be raised by 50 per cent. and certain ones by more than that. Thus the proposed increase in Germany's quota is from \$330 million to \$787.5 million, in Canada's from \$300 million to \$550 million and in Japan's from \$250 million to \$500 million. In addition, countries with old quotas of \$20 million or less may, if they wish, increase their quotas by more than 50 per cent., and in fact no fewer than seventeen countries have requested special additional increases in their quotas. The effect of these proposals, which have been accepted by the Board of Governors of the Fund and now await ratification by the legislatures of the different countries, will be to raise the total of quotas from \$9,228 million at the end of 1958 to \$14,325 million and, assuming that all gold tranches are paid up in full, to increase the amount of the Fund's holdings of gold and U.S. dollars by some \$2.3 milliard.

In 1959, for the first time since the war, all the world's principal currencies are again convertible, although in most cases only for current transactions. In addition, restrictions on the international exchange of goods and services are now fewer than for many years past. This could not have happened without a great improvement in many countries' reserve positions since the early post-war years. The below graph shows the increase in the reserves of all countries except the United States and the United Kingdom



since the end of 1948 by categories of international liquidity.* The two latter countries, holdings of whose currencies account for so large a part of international liquidity, are discussed separately afterwards.

The gold, dollar and sterling holdings of the countries covered by the graph increased between the end of 1948 and the end of 1958 by \$10,120 million. Gold reserves rose by \$7,837 million and official holdings of dollars (including those of international institutions) by \$5,540 million, while sterling balances, expressed in dollars, declined by \$3,257 million. The latter figure includes sterling held by non-territorial organisations and, unlike the dollar figures, privately-owned balances as well, since there is no way of excluding them.

Of the increase in gold reserves, new production was by far the most important source. It amounted to \$9,247 million during the period covered by the graph. Since 1953 new production has been usefully augmented by Soviet gold sales estimated to have totalled \$845 million, so that total supplies of new gold since the end of 1948 amount altogether to \$10,092 million. In addition, the countries in question have had \$2,572 million's worth of gold sold to them by the two main banker countries. The latter, taken together, have been sellers of gold in every one of the years shown, except 1956 and 1957. If the gold transactions of the United States and the United Kingdom are looked at separately, it appears that in every year except 1955 the effect of the former's transactions has been the opposite to that of the latter's. That is to say, they seldom both sell or both buy gold simultaneously. Over the whole period the United States sold \$3,817 million's worth, while the United Kingdom purchased gold to the value of \$1,245 million.

From the sources so far mentioned there was placed at the disposal of the countries under consideration \$12,664 million's worth of gold. Almost 62 per cent. of this amount — \$7,837 million's worth — went into their monetary reserves, while the remaining \$4,827 million's worth was used in non-monetary ways. It may be estimated that perhaps rather more than one-third of this was used by industry, while the rest was hoarded.

The increase in officially-held dollar balances (including those held by international institutions) was about 70 per cent. of that in gold reserves during the period under consideration. Dollar balances increased in every year except 1949 and 1957 and by the end of 1958 they amounted to \$9,988 million. Sterling balances, expressed in dollars and including those held by non-territorial organisations, were \$3,257 million lower at the end of 1958 than they had been a decade earlier. This is entirely due to the devaluation of 1949, in which year their dollar value went down by \$3,904 million, although in sterling terms they rose by £157 million. In the years 1950-54, despite a sharp fall in 1952, sterling balances rose by \$1,104 million. After that

* On the assumption that the U.S.S.R. and other eastern European countries do not buy gold in western markets, the gold figures do not apply to them. They are, however, included in the dollar and sterling figures, since their holdings of these currencies cannot be separated from those of other countries.

(despite the increase in I.M.F. sterling balances in December 1956, when the United Kingdom drew \$561 million from the Fund) they declined continuously until the second half of 1958, when a moderate rise took place. The contribution of sterling to international liquidity in the years 1949-58 cannot be accurately measured by the changes in the sterling balances in terms of U.S. dollars. In the first place, the 1949 devaluation only reduced their purchasing power in terms of the few currencies that were not then devalued. Secondly, since 1948 a number of agreements between the United Kingdom and other countries, under which certain balances were blocked, have been terminated; and thirdly, the former restrictions on the use of non-resident sterling have been reduced to the point where all balances, except those on blocked sterling accounts, are now freely convertible at official rates of exchange. Taking these considerations into account, it is certain that the rôle of sterling as an international currency has not diminished in the way that a reading of the graph by itself might suggest.

During the period under consideration the U.S. gold stock was reduced from \$24,399 million to \$20,582 million, while the total of official foreign dollar balances, including those of the United Kingdom, rose from \$4,701 million to \$10,207 million. A large part of the reduction in the U.S. gold stock took place during 1958 and the question was raised in certain circles as to whether the U.S. gold holdings were still adequate to meet the country's needs. At the end of 1948 the United States held gold worth more than five times the total of its official short-term liabilities, whereas at present these are covered exactly twice by the gold stock. For a country whose currency is used on a large scale for international reserve and payments purposes the present situation can hardly be regarded as unsatisfactory. In relation to the total of outstanding foreign short-term dollar balances the cover provided by the U.S. gold stock was 316 per cent. at the end of 1948 and 127 per cent. at the end of 1958, when the gold stock still exceeded the total of all short-term dollar holdings by \$4.4 milliard. Another relevant comparison is that between foreign dollar holdings and U.S. exports; the former amounted to \$16.2 milliard at the end of 1958 compared with \$2.2 milliard at the end of 1938, while during the same period U.S. exports rose from \$3.1 milliard to \$17.9 milliard. Although dollar balances, therefore, have risen the faster of the two, they are still smaller in amount than the value of a year's exports from the United States.

In the United Kingdom the very wide gap that existed between external assets and liabilities ten years ago has narrowed considerably. At the end of 1948 the gold and dollar reserves were about 13 per cent. of all sterling balances, including those held by non-territorial organisations. This percentage by itself is not very revealing, since sterling balances, especially those held inside the sterling area, cover a much wider range of assets (including long-term assets) than do the gold and dollar reserves of the Exchange Equalisation Account. Changes in the percentage over a period of time, however, are significant and by the end of 1958 it had risen to almost 28 per cent., the

reserves having increased from \$1,856 million to \$3,069 million and the dollar value of the sterling balances having declined from \$14,307 million to \$11,108 million.

Both in absolute terms and as a proportion of the total, sterling held by countries outside the sterling area declined much more during this period than the sterling balances of sterling-area countries. The former fell from \$4,018 million to \$2,036 million, while balances of sterling-area countries declined from \$8,685 million to \$7,328 million. It is not possible to break the latter figures down into those for independent sterling-area countries and those for colonial territories, since several countries have during this period moved from the colonial to the independent category. It can be said, however, that colonial balances have probably increased relatively to the total of all sterling-area balances. Sterling held by non-territorial organisations rose, in terms of dollars, from \$1,604 million at the end of 1948 to \$1,744 million ten years later.

To sum up the changes in sterling balances, those whose holdings are apt to be most liquid, i.e. the non-sterling countries, have reduced their balances most, while inside the sterling area it is the balances directly under the control of the U.K. Government, i.e. those of the colonial territories, which have increased. These developments are favourable ones from the British point of view and to them should be added the fact that the two largest holders of sterling immediately after the war — India and Pakistan — now both have rather modest reserves. On the other hand, at the end of 1958 the United Kingdom had a relatively short-term debt of \$561 million to the International Monetary Fund, which, together with the gold payments which it and some other sterling-area countries will have to make later this year to the Fund in connection with the increases in their quotas, will make substantial calls on its reserves during 1959.

During the years 1949-58, therefore, countries other than the United States and the United Kingdom, taken as a whole, improved their reserve positions substantially. The United Kingdom also strengthened its position, though to a lesser extent than a number of European countries, while the United States ceased to enjoy the abnormally wide margin between its external assets and its external liabilities that existed in the late forties. Although gold has been the most important source of new reserves since the war, the U.S. dollar and the pound together are more important today as reserve currencies than they were ten years ago. Indeed, the present framework of international trade and payments depends on the maintenance of confidence in these two currencies. Important as the efforts made by other countries have been and are, it is on the soundness of economic policy in the United States and the United Kingdom that the maintenance of a satisfactory international liquidity position will in large measure depend.

The fact that a general shortage of international liquidity cannot be said to exist at present does not mean that all countries' reserves are adequate. In this connection it may be of interest to consider some of the yardsticks

with the aid of which an idea, however rough, may be obtained of the strength or weakness of a country's reserve position. One of these is the certainty or uncertainty of its export receipts. The analysis in Chapter V of the extent to which different countries' export incomes fluctuated between 1948 and 1957 shows that, contrary to what is sometimes supposed, countries still in the early stages of industrialisation have not, at any rate since the war, experienced much larger year-to-year changes in their external incomes than industrialised countries. It is possible, however, that, now that economic activity is no longer influenced by the aftermath of the war, bigger differences may emerge in this respect between these two groups of countries. Whatever may be the relative variability of export receipts as between industrialised and non-industrialised countries, it is certainly true that the most powerful influences affecting the foreign exchange receipts of non-industrialised countries are those that originate externally in the cyclical variations in economic activity in the industrialised countries.

So far as imports are concerned, in the absence of quantitative restrictions it may be easier for non-industrialised than for industrialised countries to control their volume, and the former may therefore be able to maintain lower reserves in relation to a given volume of imports than could the latter group of countries. For instance, import demand in such countries will respond immediately to changes made in the pace at which economic development programmes are carried out and, because their economies are simpler, government action aimed at moderating a boom will in general be likely to "bite" sooner than is often the case in industrialised countries. Excluding the United States, the relation of imports to gross reserves in the industrialised countries of the world at the end of 1957, taken as a group, was about the same as in the non-industrialised countries; however, European countries appear to have enjoyed a more favourable ratio in this respect than other countries.

Another yardstick with which a country's reserves may be compared is the amount of its internal liquidity, since upon the latter will depend the extent to which, in the absence of any action by the monetary authorities, an expansionary impulse can be carried by its own momentum. At the end of 1957 non-industrialised countries, as a group, had larger reserves in relation to their stocks of money and near-money than industrialised countries. This is not surprising, but its significance can only be judged if account is also taken of the extent to which different countries, in periods of expansion, rely on imports, since this factor will determine how strongly an increase in domestic demand influences a country's balance of payments. In this respect, non-industrialised countries, with their relatively undiversified economies, are as a rule more vulnerable than industrialised countries.

VII. Foreign Exchange.

The outstanding development in the foreign exchange field during the period under review was the simultaneous introduction at the end of December 1958 by all the members of the European Payments Union except Greece, Iceland and Turkey and by Finland of current-account convertibility for non-residents. This decision brought about the winding-up of the European Payments Union, thus doing away with the element of automatic official credit facilities in intra-European settlements, and it also meant the unification of the world's principal foreign exchange markets.

These events were the climax of years of persistent efforts directed to removing the obstacles to international trade and payments which were the legacy partly of the war and partly of the world economic crisis that preceded it. The success with which these efforts have been rewarded can be measured by recalling briefly the situation in the immediate post-war period. In most European countries productive capacity at that time was abnormally low, internal liquidity was very high and monetary reserves were depleted. Consequently international trade and payments were, for the most part, confined in the straitjacket of bilateralism. Countries tried as far as possible to balance their external transactions with each of their trading partners separately, so as to avoid the need for transfers of international reserves, and in Europe balances earned by one country in the currency of another could, as a rule, only be spent in the country in whose currency they were expressed.

Following the unsuccessful attempt to restore sterling convertibility in the summer of 1947, a first step towards freer payments was taken with the signing, in November 1947, of an agreement for multilateral compensations between a number of European countries. This provided for the offsetting of a country's debit balance with one trading partner against its credit balance with any other. The same principle was also the basis of the more elaborate intra-European compensation agreements of 1948-49 and 1949-50, which linked the offsetting of European balances to the distribution of Marshall aid. The decisive step in this field, however, was taken with the coming into operation of the European Payments Union in July 1950. The Union provided a simple mechanism for the complete settlement every month, partly in gold and dollars and partly by the extension of credit, of each member's position vis-à-vis all the other members.

The E.P.U. mechanism made the currencies of the member countries intertransferable at the monthly settlements. A natural consequence of this was that the individual countries began to allow a greater degree of transferability for their currencies in day-to-day operations between the monthly settlements. The official foreign exchange markets were given greater freedom and in May 1953 multilateral arbitrage between the principal European currencies was introduced. Each of the countries concerned thus made its currency transferable on current account between residents in all the other

countries taking part in these arrangements. Later some countries enlarged the area of transferability of their currencies to include most, or in some cases all, of the non-dollar area. These developments reflected the better internal balance that was being achieved by most European countries, as did also the gradual narrowing of the gaps between official and free-market quotations for currencies. A very important step in this connection was the decision of the British authorities in February 1955 to intervene at their discretion in the free exchange markets. From then onwards holders of transferable sterling were always able to obtain dollars at a very small discount, and this meant that holders of other European currencies could convert their balances indirectly — via transferable sterling — into dollars at rates that were within about 2 per cent. of the official quotations.

Thus settlements between the member countries of E.P.U. were increasingly made on the exchange markets and, in addition, European currencies became de facto convertible into dollars almost at official rates of exchange. Side by side with these developments, progress towards convertibility was also made by gradually increasing the proportion of gold and dollars in the E.P.U. settlements. Originally it was only 40 per cent. but this was raised in stages to 75 per cent. by 1955. To complete the picture, mention should be made of the substantial liberalisation of imports by European countries; in return for the credit facilities available in the Union, member countries bound themselves to do away with quantitative restrictions on imports from each other, first to the extent of 75 per cent. and later up to 90 per cent. In addition, they reduced, although not in most cases to the same extent, their restrictions on imports from the dollar area.

The ground had thus been carefully prepared for putting an end, at a suitable moment, to the "managed" system of intra-European settlements. That the decision to do so was taken in December 1958 was due in large measure to the reinforcement of European reserve positions during that year, thanks partly to a favourable movement in Europe's terms of trade. The move to convertibility was therefore made from a position of strength, as the graph on page 188 showing quotations for European currencies against the dollar confirms.

In France the move to convertibility was made possible by the simultaneous adoption of a number of other measures. A further devaluation of the franc put the exchange rate on a realistic level, while the substantial liberalisation of imports (90 per cent. for O.E.E.C. countries and 50 per cent. for the dollar area) offered the best hope of limiting any subsequent rise in domestic prices and so of consolidating the devaluation. Other foreign exchange measures taken in European countries during the period under review were mostly of a de-restrictive kind and they included the abolition of non-resident capital accounts in France and Germany.

In Latin America the external values of most currencies declined during the period under review. In Argentina an exchange reform took place in January 1959, the apparent effect of which was to introduce a single

fluctuating exchange rate for all transactions at the same time as abolishing all exchange controls. As the change-over was accompanied by the introduction of export subsidies and import surcharges, the new arrangements are similar in effect to the multiple rate system that operated before. Early in April 1959 the free-market rate for the dollar was about Pesos 73, compared with Pesos 39 a year earlier. In Brazil there were modifications in the multiple exchange rate system amounting to a devaluation and the free dollar rate rose from Cruz. 118 to Cruz. 135 between April 1958 and April 1959. Over the same period the principal dollar rate in Chile rose from Pesos 750 to Pesos 1,050, while in Uruguay free-market quotations for the dollar went up from Pesos 6.40 to Pesos 8.40. In both these countries the number of exchange rates has been reduced and in Chile there is now a single rate for all transactions. In Bolivia the dollar exchange rate rose from Bs. 8,855 in March 1958 to Bs. 11,885 in March 1959. The decline in Latin American currency values was greatest in these five countries but some depreciation also occurred in Colombia, Ecuador, Paraguay and Peru.

* * *

The changes brought about by the introduction of convertibility may be conveniently discussed under three headings: firstly, the winding-up of the European Payments Union and the coming into force of the European Monetary Agreement, which are described in Chapter VIII; secondly, changes in the foreign exchange markets and, thirdly, changes in the regulations governing the conduct of non-resident accounts.

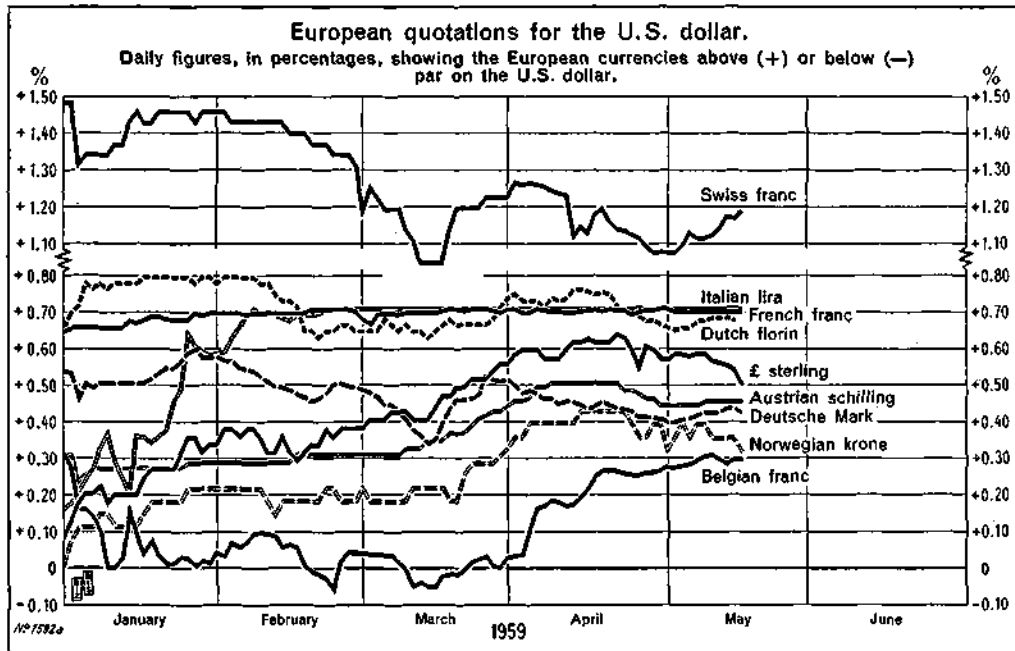
So far as the foreign exchange markets are concerned, the measures taken in December 1958 have brought unification and at the same time greater freedom of movement for rates. Previously each European currency was traded against the U.S. and Canadian dollars in a separate market, while eleven different European currencies were traded against one another on what was one market, under the arbitrage arrangements introduced in May 1953. At the end of December 1958 these two kinds of market were amalgamated and all the principal European currencies are now freely traded against one another and against the U.S. and Canadian dollars in one market. This has meant, of course, the disappearance of the free, semi-official markets in which current-account balances in European currencies were traded against the dollar, the most important of which was the transferable sterling market. There remain a number of free markets in capital-account balances of European currencies. These are of their nature subsidiary markets and in most cases the rates quoted on them are very close to the quotations for the same currencies on the official exchange markets.

There has thus been a unification of different exchange markets and therefore of different rates that used to be quoted for the same currency. No less important than this sweeping-away of barriers, most of which had long since become easily surmountable, is the fact that currencies are now free to fluctuate against one another more than they could under the previous arrangements. The basis of the new exchange rate system may be said to lie

in the buying and selling rates for the U.S. dollar which the member countries of the European Monetary Agreement have declared to the Bank for International Settlements, as Agent for the E.M.A., and which are the rates applicable to any settlements made through the E.M.A. mechanism. These buying and selling rates, which are shown in the table on page 223 set the limits for the possible fluctuations of the currencies concerned against the U.S. dollar. In most cases the rates are about 0.75 per cent. on either side of the dollar parities. The exceptions are Sweden, where the possible fluctuations of the krona against the dollar are only 0.068 per cent., Portugal, where the total spread is a little over 2 per cent., and Switzerland, where it is about 3.5 per cent. Finland, which is not a member of the E.M.A., has established buying and selling rates for the U.S. dollar which are 0.75 per cent. on either side of par.

Compared with the previous situation, six countries now have wider spreads against the dollar. In Denmark and Norway there had been virtually no spread and the same was true of France and Italy, although in the latter countries there were no fixed official intervention points before. In Austria and Portugal, too, the distance between the official buying and selling rates has been widened. Germany, the Netherlands and the United Kingdom have maintained the same margins of about 0.75 per cent. as they had before. In Switzerland, on the other hand, the official buying and selling rates have both been brought 1 U.S. cent nearer the parity, while in the Belgium-Luxemburg Economic Union the total spread on the dollar has been reduced from 1 per cent. on either side of the parity to 0.75 per cent. In Sweden, where the spread between the official buying and selling rates was previously only 0.19 per cent., it has been reduced even further.

As a number of countries have widened their spreads against the dollar and as the possible range of fluctuation for one European currency against another, in a unified exchange market, is the sum of their spreads against the dollar, it follows that European currencies can in general now fluctuate more widely against one another than before. Under the previous arrangement for purely intra-European currency arbitrage, each country fixed margins against all the others which were 0.75 per cent. on either side of the parities, the total spread in each case therefore being 1.5 per cent. and the maximum spread between the highest and the lowest currency at any one time 0.75 per cent. For those European currencies which now have spreads of about 0.75 per cent. on either side of par against the dollar the range of possible fluctuations against one another is about 3 per cent. altogether and the possible spread between the highest and lowest currency at any one moment is 1.5 per cent. For the Swiss franc, with its total spread of about 3.5 per cent. against the dollar, the range of possible fluctuation vis-à-vis most European currencies is now about 5 per cent., while for the Portuguese escudo it is rather more than 3.5 per cent. The Swedish krona, on the other hand, as it is practically fixed in relation to the dollar, continues to have about the same possibilities of fluctuation against most other European currencies — viz 0.75 per cent. each way — as it had under the previous European arbitrage arrangements.



The actual development of exchange rates against the U.S. dollar since the introduction of convertibility is shown for nine different European currencies in the above graph. With the exception of the Belgian franc, all the currencies in question have consistently been above par on the dollar the whole time, while since the beginning of February 1959 the florin, the lira and the French franc have been at, or very near, their upper limits against the dollar. The pound appreciated steadily until near the end of April, and it would appear that its movements have been followed, although at a smaller distance above par, by the Norwegian krone. Two currencies which have declined on the dollar are the Swiss franc and the Deutsche Mark, the former much more than the latter. So far as the Swiss franc is concerned, the fact that other European currencies are now convertible has inevitably robbed it a little of its former special status. It is noticeable that the actual spread on the market between the European currencies themselves narrowed from about 1.5 per cent. at the end of December 1958 to little more than 0.75 per cent. early in May 1959, or, if the Swiss franc is excepted, to no more than 0.4 per cent.

The other changes that sprang from the decision to adopt current-account convertibility were those made necessary in the regulations governing the conduct of non-resident accounts. The thirteen European countries already mentioned have made their currencies freely convertible on current account for nearly all, and in some cases all, non-resident holders.

Two of them — Germany and the United Kingdom — have now put their current payments with all other countries on a basis of convertibility and they now have only one kind of current account for non-residents, freely convertible into any foreign currency and freely transferable between all non-residents. The other eleven countries — Austria, the B.L.E.U., Denmark, Finland, France, Italy, the Netherlands, Norway, Portugal,

Sweden and Switzerland — still maintain bilateral payments arrangements with certain countries. France and the Netherlands still have transferable accounts for residents in countries which are neither in the dollar area nor in the bilateral group. As, however, the uses of these transferable accounts have, since the end of December 1958, been virtually indistinguishable from those of the convertible non-resident accounts in these two countries, they can be said to exist as a third category of current non-resident account in name only, and it seems likely that they will soon be formally amalgamated with the convertible accounts. In effect, therefore, all the eleven countries which have not yet adopted overall current-account convertibility now distinguish only between countries with which transactions take place on the basis of convertibility and those with which payments are still strictly bilateral. The number of bilateral payments agreements still maintained is different in each of the eleven countries, but in none do they comprise more than a small fraction of the foreign trade and payments of the country concerned.

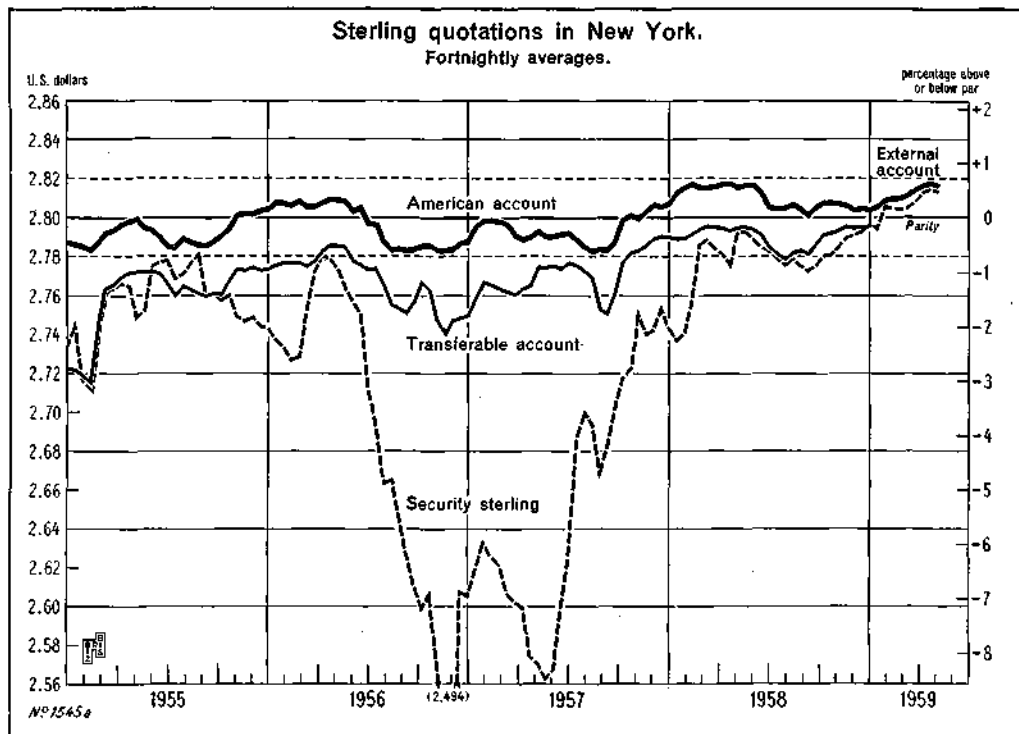
The United Kingdom, as well as making sterling convertible on current account for all non-residents, liberalised its exchange control régime in a number of other ways during the period under review. The unification of transferable and American account sterling enlarged the scope of the London foreign exchange market by making it possible for banks in the United Kingdom to do business that had previously been transacted on exchange markets in other countries. Some of the other relaxations of exchange control were also of a kind that improved the facilities available in London for transacting business either in the foreign exchange market or in the commodity markets or in the field of financing international trade. Thus in January 1959 banks were given freedom to export sterling notes to non-residents, and a month later all restrictions were removed on dealings by authorised banks in foreign bank-notes. In March 1959 U.K. residents were allowed to cover their financial transfers and other invisible transactions with non-sterling countries in the forward exchange market for periods of up to six months; previously the forward market could only be used by residents, except with special permission, for merchandise and freight transactions.

For the London commodity markets, the introduction of convertibility meant that the remaining restrictions on the sale of dollar commodities for sterling were done away with. In particular, grain, cotton and refined sugar bought by United Kingdom merchants for dollars may now be resold by them to non-residents against payment in sterling. In the banking field, permission was given in February 1959 for authorised banks once again to grant usance credits for the financing of trade between third countries. This facility had been withdrawn in September 1957 with the object of preventing its being used for speculative purposes.

Apart from these measures, restrictions on capital transactions by non-residents have been eased in two ways. In July 1958 it was announced that direct investments by foreigners in the United Kingdom would no longer be

restricted to those which the U.K. authorities judged to be of economic advantage to the country. Then, in February 1959, the limit of £500 on the transfer of legacies to the dollar area was removed and at the same time permission was given for the transfer of all such legacies which had been blocked since 1951 and were still in the hands of their original owners. Also in February 1959, the allowance for emigrants to the dollar area was raised from a previous maximum of £2,000 to the figure of £5,000 that already applied to persons emigrating to other non-sterling countries.

Two other relaxations of exchange control may also be mentioned. In March 1959 the amount of sterling notes that U.K. residents are allowed to take out of the country was raised from £10 to £20. In the same month the restrictions imposed after the nationalisation of the Suez Canal on the use of Egyptian sterling accounts and on security transactions by Egyptian residents were removed.



On the exchange markets the pound was during most of the period under review very strong against the U.S. dollar. American account sterling was consistently above par on the dollar throughout 1958, and during most of the first six months quotations were above \$2.81. Transferable sterling, except for a very brief period in the third quarter of 1958, was always above the lower support point on the official market of \$2.78. Moreover, quotations for security sterling, after rising from a low point just below \$2.73 early in 1958, were during the rest of the year very close to the other two rates. From October 1958 onwards the rates moved even closer together than before, and by the time of the unification of the transferable and American account rates the three were almost contained within a spread of 1 U.S. cent.

In the early months of 1959 the new external account sterling rose steadily from a little over the parity of \$2.80 to very near the upper limit of \$2.82 by the middle of April. Security sterling, too, appreciated over this period, although not continuously, and in mid-April it was quoted at about \$2.81½. At times the two rates were virtually identical and so the advantage of purchasing security sterling for stock exchange transactions in the United Kingdom to all intents and purposes vanished. This development was the result of a substantial inflow of foreign capital during the early months of 1959, particularly from the United States, and, together with the strength of sterling on the official market, it was an indication of the confidence felt in the pound following the re-establishment of convertibility.

In France the period under review falls easily into two parts from the foreign exchange point of view. Before the adoption of the comprehensive new economic programme at the end of 1958 there were few developments of note. On 21st June 1958 the de facto devaluation of August 1957 — which hitherto had taken the form of premiums or surcharges of 20 per cent. added to the previously existing rates — was made official and a month later the gold reserves of the Bank of France were revalued accordingly.

The economic measures taken by France at the end of 1958 were certainly more far-reaching than those adopted in any other European country. On the foreign exchange side, as well as the introduction of current-account convertibility for most non-residents, a further devaluation of almost 15 per cent. was decreed, accompanied by a 90 per cent. liberalisation of imports. The new gold content of the franc is 0.001 800 grammes and the new dollar parity is Fr.fcs. 493.706. It is noteworthy that the new franc parity was officially declared as such to the International Monetary Fund on 29th December 1958; previously France had had no declared par value with the Fund since 26th January 1948.

The adoption of these fundamental changes has been followed up by further relaxations of exchange controls during the first four months of 1959. The most important of these was in January 1959, when the capital accounts of non-residents were abolished and at the same time the range of capital transactions which may be carried out in France by non-residents was considerably extended. In particular non-residents are now at complete liberty to buy quoted French securities, while the sales or amortisation proceeds of such securities may be freely credited to convertible franc accounts.

Three other recent changes in exchange control may be mentioned:

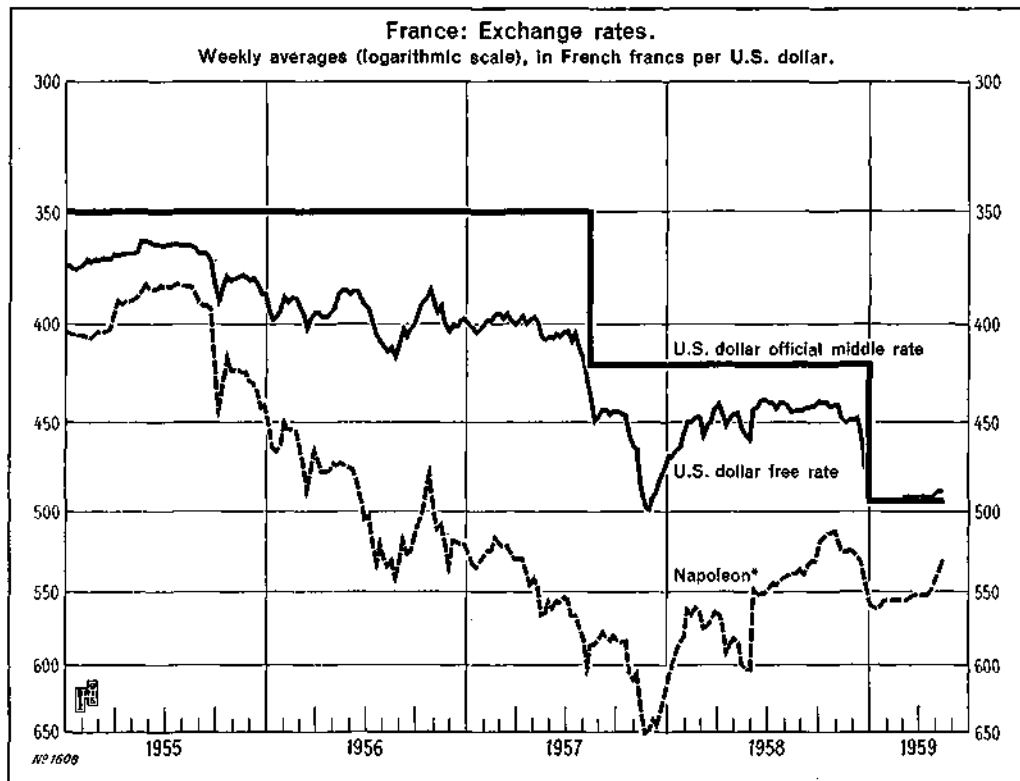
- (i) In January 1959 the percentages of their foreign earnings which French exporters could retain on special accounts (E.F.A.C. accounts) for their own business purposes were reduced. Two months later preferential export retention quotas were introduced for all persons holding a "carte d'exportateur" issued by the French Government. These new rates are 15 per cent. for earnings in the United States and Canada and 11 per cent. for other foreign earnings, and they compare with the rates of 15 and 10 per cent. respectively in force before January 1959.

Rates of 12 and 8 per cent. respectively now apply to the foreign earnings of those who do not qualify for the preferential rates.

- (ii) In May 1959 French authorised banks were given complete freedom to deal in foreign bank-notes between one another and with their foreign correspondents.
- (iii) With effect from 1st June 1959 a foreign travel allowance, of Fr.fcs. 50,000, was reintroduced for residents of France. This is in addition to the sum of Fr.fcs. 25,000 which may be exported in the form of bank-notes.

One consequence of the devaluation has been a change in the rates of exchange between the French franc, on the one hand, and the Moroccan franc and the Tunisian dinar, on the other. Neither of these currencies followed the franc at the end of 1958 and the present rates of exchange are therefore Moroccan fcs. 1,000 = Fr.fcs. 1,175 and Dinar 1 = Fr.fcs. 1,175.49. Another event affecting the French franc area was the withdrawal from it in April 1959 of South Vietnam.

The following graph shows the development of the official and free rates for the U.S. dollar in France since the beginning of 1955; it also shows the price of the Napoleon, expressed as a franc/dollar exchange rate. The latter



* Calculated by comparing the actual price of the Napoleon with its value in francs at \$35 per ounce and at the official franc/dollar exchange rate. The resulting premium has then been applied to the official franc/dollar exchange rate.

Note: The U.S. dollar free rate is the rate for dollar bank-notes.

has been chosen as an indicator of domestic sentiment about the currency. As can be seen, the three rates were fairly close together at times in the first nine months of 1955 but after that the gaps, particularly those separating the Napoleon from the other two rates, widened rapidly. Since the de facto devaluation of August 1957 the premium on the dollar bank-note has been much smaller, except for a brief period of speculation near the end of 1957; early in 1958 the premium on the Napoleon began to diminish too and, except for the interruption of the political crisis in April and May 1958, it has continued to do so. Since the devaluation at the end of 1958 the official dollar rate and the bank-note rate have been virtually identical, and indeed on some occasion the latter has even been above the former. The premium which still exists on the Napoleon may be regarded as being somewhere near the minimum extra that people will have to pay to obtain gold in conveniently small quantities. By May 1959 the premium on the kilogramme bar of gold, which had been 30 per cent. early in August 1957, 25 per cent. in November 1957 and about 15 per cent. in May and December 1958, had fallen below 1 per cent.

In the German Federal Republic it is no longer possible to speak properly of the continued existence of an exchange control system. That is to say, virtually complete freedom for residents and non-residents on both current and capital account has now been achieved. The main relaxation of controls during the year was, of course, the amalgamation of freely convertible DM accounts and Bekomark accounts at the end of December 1958. Besides this, however, there were a number of other measures taken during the period under review which are worthy of mention.

With effect from 1st July 1958 the liberalised capital accounts were abolished and balances on them (including those owned by residents outside the dollar area) were transferred to freely convertible DM accounts. From then until the end of the year foreign investment could take place either over these latter accounts or via the Bekomark accounts, except that the latter could not be used for making loans to German residents or for purchases of German securities.

The liberalisation of capital imports into the Federal Republic has been completed as a result of measures taken in recent months. Firstly, in January 1959 non-residents were allowed to grant loans in foreign currencies to residents; previously such loans had to be in Deutsche Mark. Secondly, with effect from 1st April 1959 German banks were no longer required to hold higher reserves with the central bank against their foreign deposits than against German-owned deposits; this distinction had been introduced in 1957 in order to try to discourage the inflow of short-term speculative funds that was taking place at that time. Thirdly, since 1st May 1959 German banks have been allowed for the first time since the war to pay interest on foreign deposits. Finally, and also with effect from the beginning of May 1959, non-residents were given permission to acquire German money-market paper and at the same time the stipulation that loans from non-residents to residents had to be for periods of not less than five years was abolished.

Mention may also be made of certain other measures of exchange control liberalisation that occurred during the period under review. Until February 1959 credits could be granted to non-residents only by German banks; this restriction has been removed and all residents are now free to carry out such transactions. In the same month German banks were allowed to grant credits in foreign currencies to residents for periods of up to one year. Finally, since January 1959 residents have been free to give security in various forms to non-residents and all restrictions on the taking-out of life insurances abroad by residents and of life insurances by non-residents with German companies have been removed.

In the Netherlands, too, some measures of exchange liberalisation were taken during the period under review. In June 1958, for the first time, current non-resident accounts were reduced to three main types — convertible accounts, transferable accounts and bilateral accounts. In July 1958 all restrictions on the import of Dutch currency into the Netherlands by non-residents were removed. Foreigners may not take more than Fl. 1,000 with them out of the Netherlands unless they brought the excess in with them on arrival. Residents are allowed to import as much in domestic notes as they took out. In November 1958 the tourist travel allowance for Netherlands residents was raised from Fl. 1,000 to Fl. 2,000 per journey, and all restrictions on the use of foreign currency by Netherlands residents for business travel were removed. In the same month residents in the transferable florin area were allowed to transfer between each other the balances on their capital accounts in the Netherlands (K accounts); previously this facility had only been available within the transferable florin area to residents in E.P.U. countries. At the end of February 1959 the Nederlandsche Bank informed the Amsterdam Stock Exchange that it was again prepared to consider applications for the introduction of foreign securities on the Dutch market. In September 1957, as one of the measures taken at that time to stop speculation against the florin, the quotation of foreign securities was banned.

In Denmark the system of current accounts for non-residents was changed in June 1958. Until then these accounts had been classified according to types of holder — there being one kind of account for foreign banks, one for commercial firms and one for insurance companies. The new system adopted was the more usual one of dividing the world into a group of convertible countries, an area of transferability and a group of bilateral countries. This made it easy for Denmark simply to amalgamate the convertible and the transferable areas at the end of 1958. Other measures taken in Denmark during the period under review were:

- (i) In June 1958 the previous limit of D.Kr. 500 on the import of Danish bank-notes was abolished. Non-residents may export Danish bank-notes freely, but residents are limited to D.Kr. 500.
- (ii) In February 1959 all restrictions on the availability of foreign exchange for tourist travel in the dollar area were abolished. The only remaining stipulation is that sums spent in this way must bear some relation to the length of the visit.

- (iii) In March 1959 it was announced that the payment of export premiums in respect of goods sold to the dollar area would be gradually stopped. At present premiums are paid at the rate of 6 per cent. and this will be reduced in stages to zero by the end of 1961.

In Austria the regulations governing non-resident-owned capital have been liberalised in a number of ways. As from 1st July 1958 residents in O.E.E.C. countries were allowed to use their "original" blocked schilling balances freely to buy Austrian securities; previously only 25 per cent. of such balances could be used in this way and then only for the purchase of fixed-interest-bearing securities. At the same time permission was given for capital gains on investments made with blocked schillings to be repatriated to O.E.E.C. countries, provided at least five years had elapsed since the investment was made; until then only the original sum invested was transferable in this way. In March 1959, following the convertibility measures of December 1958, non-residents were allowed freely to repatriate at any time over the official exchange market the sales proceeds of investments made either in convertible currencies or with free schilling balances.

Early in September 1958 it was announced that all blocked schilling balances outstanding at 30th August 1958 and owned by residents in countries with which payments were then made in convertible currencies or E.P.U. currencies, together with blocked balances of residents in Egypt and Spain, could be freely transferred to the country of residence of the owner. In January 1959 a similar measure was applied to all blocked schilling balances outstanding at the end of 1958 and owned by residents in countries with convertible currencies, or by residents in Egypt, Greece, Spain and Turkey.

Until the advent of convertibility, the foreign exchange market in Vienna had been limited to dealings in the currencies of countries taking part in the European arbitrage arrangements. As from 1st January 1959, dealings in U.S. and Canadian dollars and in Portuguese escudos have been allowed. Previously, transactions in these currencies had taken place at rates fixed by the Austrian National Bank. A month later, in February 1959, dealings began in foreign notes and coin on the Vienna Stock Exchange.

In Finland the external position improved further during the period under review, and the country's exchange restrictions were very considerably relaxed. In April 1958 a new multilateral agreement between Finland and the members of the O.E.E.C. (except France and Turkey) came into force, as a continuation of the one signed in October 1957. Under it the partner countries granted Finnish exports treatment as favourable as that which they grant each other under the O.E.E.C. Code of Liberalisation. In return, Finland undertook to maintain a free import list vis-à-vis these countries covering at least 80 per cent. of its imports from them in 1954. On the payments side, Finland could freely transfer foreign exchange from any one of these countries to any other. At the end of 1958 this agreement was extended for another year.

On 1st July 1958 the regulations governing the conduct of non-resident accounts in Finland were revised. Current accounts were divided into three categories — convertible, transferable and bilateral accounts — as in other western European countries. The area of transferability covered all the O.E.E.C. countries which used to take part in the European exchange arbitrage arrangements, except France, plus Argentina. At the end of 1958 Finland followed the general example in Europe and extended non-resident convertibility to all non-residents except those living in countries which have bilateral payments agreements with Finland. At the same time a spread of 0.75 per cent. on either side of par was introduced for the U.S. dollar instead of the previous fixed buying and selling rates of FM 319 and FM 321. Rates against European currencies are formed as a result of the dollar rates for the markka and for other European currencies.

Two other changes made during the period under review were the abolition in September 1958 of the special levy on exports introduced a year earlier at the time of the devaluation and the doubling in March 1959 of the foreign travel allowance for Finnish residents; it is now FM 40,000 per journey for visits to other Scandinavian countries and FM 80,000 per journey for travel elsewhere.

As a result of the more liberal policies pursued since the 1957 devaluation, the Governor of the Bank of Finland was able to state recently that "trade and payments restrictions in Finland are now approximately at the general level of Scandinavian countries".

While policies in Finland have, during the past eighteen months, been substantially aligned with those pursued by most of the O.E.E.C. countries, there remain three European countries — Iceland, Spain and Turkey — two of which belong to the O.E.E.C., where 1958 saw a continuation of economic disequilibrium and of multiple exchange rate systems.

In May 1959 there was a change in Iceland's exchange rate system, the effect of which was tantamount to that of a devaluation. The par value of the Icelandic krona remains unchanged at I.Kr. 16.286 = U.S.\$1, but the official buying and selling rates of I.Kr. 16.26 and I.Kr. 16.32 per dollar now apply only to purchases and sales of exchange arising from the operation of an American air force base in Iceland. The rates which apply to all other transactions place a lower value on the krona. Premiums of 55, 70 and 80 per cent. are paid on exports, while imports and other exchange payments attract surcharges of 30 and 55 per cent. Import exchange rates range from I.Kr. 16.32 to I.Kr. 32.64 per dollar and export rates from I.Kr. 16.26 to I.Kr. 29.27 per dollar. In addition there are also special fees (which vary between 22 and 62 per cent.) payable on luxury imports.

In Spain the basic buying and selling rates for the U.S. dollar have remained at Pesetas 42-42.27 during the period under review. The effective rates for many kinds of transactions, however, have been changed. In October 1958 a 25 per cent. tax was imposed on a wide range of imports, and in July and August of that year export premiums were extended to certain

goods which had not previously benefited from them, while in some other cases existing premiums were increased. In April 1959 the exchange rate for U.S. tourists in Spain was changed from Pesetas 52 to Pesetas 56 per dollar.

In Turkey the exchange rate system was modified in August 1958. Until then the range of effective export rates had been from the official buying rate of $T\text{₺}2.80 = \text{U.S.}\1 to $T\text{₺}5.60 = \text{U.S.}\1 for certain goods on which 100 per cent. export subsidies were paid. On the imports side, all imports were subject to an exchange tax of 40 per cent., but in addition exchange taxes of up to 75 per cent. were levied on luxury imports, so that the range of import rates was from $T\text{₺}3.39$ to $T\text{₺}6.92 = \text{U.S.}\1 . So far as invisible transactions were concerned, rates ranged from the official buying rate, which was used for almost all invisible receipts, to $T\text{₺}5.75$.

Under the new system the old official parity is retained and premiums or surcharges, which are on the whole greater than before, are added to it. Thus a rate of $T\text{₺}9 = \text{U.S.}\1 (official parity of $T\text{₺}2.80$ plus surcharge or premium of $T\text{₺}6.20$ per dollar) applies to all imports, all invisible and capital transactions, and about 40 per cent. of exports. In addition, a rate of $T\text{₺}5.60 = \text{U.S.}\1 (the official buying rate plus a premium of 100 per cent.) applies to exports of raisins, hazel-nuts and figs and a rate of $T\text{₺}4.90 = \text{U.S.}\1 (the official buying rate plus a premium of 75 per cent.) to exports of tobacco, chromium, copper and opium. The result is at once a certain devaluation of the currency together with some simplification of the exchange rate system, notably the introduction of a single selling rate.

* * *

As a result of the introduction of convertibility in December 1958 and of the degree of liberalisation, both for imports and for invisible payments, that has been achieved within the framework of the O.E.E.C., nearly all the countries of western Europe now conduct their current transactions with one another and with the rest of the world on a relatively free basis. So far as movements of capital between different countries are concerned, however, there is a much lesser degree of uniformity in the regulations at present in force, and in a number of European countries substantial restrictions on capital transactions, whether by residents or by non-residents, still exist.

An examination of the rules which the principal European countries apply to the import and export of non-resident-owned capital reveals a rough division into three groups of countries. The first consists of the B.L.E.U., Germany, Italy and Switzerland, where there are virtually no restrictions placed on either inward or outward movements. In Germany and Switzerland such transactions are completely free and take place at official rates of exchange. In the B.L.E.U. capital may be imported freely over the official or the free exchange market and may be repatriated freely over the latter. In Italy non-resident-owned capital recognised as being used for "productive" purposes may enter and leave the country freely over the official exchange market; other types of investment may be made over either the official or the free exchange

market, but the repatriation of such investments, until two years have elapsed from the date when they were made, has to take place over the free market.

At the other end of the scale comes a group of countries consisting of Denmark, Finland, Norway and Sweden. Imports of non-resident capital into these countries, as opposed to the investment of already existing capital-account balances, always require permission and the same applies to the repatriation of non-resident capital. It should be added, however, that in those cases where capital imports are approved permission is usually also given for repatriation over the official exchange market.

In between these two groups is a third, which consists of Austria, France, the Netherlands and the United Kingdom. In these countries certain transactions are allowed freely, while for others permission has to be obtained in each individual case. In France imports of capital for purchases of securities and of real estate, and for the granting of certain types of loans, are freely allowed at official rates of exchange, as is also the repatriation of such investments. In Austria, the Netherlands and the United Kingdom capital may be freely imported for the purchase of securities and real estate, but, save for minor exceptions, repatriation over the official exchange market is not allowed, except in Austria for the proceeds of the sale of Austrian securities acquired with a convertible currency or by debit of a free schilling account. In all the four countries of this group the import of capital for direct investments is subject to special permission; where this is granted, the right to repatriate over the official exchange market is usually given.

All the twelve countries under consideration, except France, Germany and Switzerland, still maintain capital accounts for non-residents. In the B.L.E.U. and Italy foreign capital may be imported over these accounts (that is, they may be credited not only with the proceeds of the realisation of foreign capital in these two countries but also with funds brought in from abroad) and they may be used freely for all capital transactions. In the other seven countries, however, capital accounts serve principally to receive non-resident-owned sums that are not eligible for direct repatriation, and in addition the uses to which balances on such accounts may be put are restricted in varying degrees. In the B.L.E.U., Italy and the United Kingdom balances on non-resident capital accounts are freely intertransferable, while in the Netherlands there is freedom of transfer between residents in different countries, except for transfers from non-dollar-area to dollar-area accounts and for transfers between so-called "non-exportable" accounts. In Austria, Denmark, Finland, Norway and Sweden capital accounts are still strictly bilateral.

As regards the freedom which they allow their residents to place capital abroad, the twelve countries under consideration may be divided into two groups. In the B.L.E.U., Germany and Switzerland residents are quite free to invest abroad as they please, although B.L.E.U. residents must use the free exchange market. In all the other countries special permission is as a rule required for foreign investment by residents, except, in most cases, for balancing sales and purchases of foreign securities. In the Netherlands

residents are allowed to use foreign currency derived from the sale of florin securities to non-residents to purchase foreign securities. In most countries applications by residents for permission to make direct investments abroad are sympathetically considered.

If there is to be greater uniformity in the regulations which govern capital transactions both for non-residents and for residents, it can only come from the removal of restrictions by those countries which still impose them. It might seem that the great improvement in European countries' external positions will, provided that it is maintained, lead naturally to a substantial liberalisation of capital movements. The trend is certainly in that direction but it has to be remembered that some of the restrictions still placed on imports of non-resident capital are not maintained for balance-of-payments reasons but in order to protect the countries concerned against what they regard as an undesirable measure of foreign control or foreign competition.

It seems likely, nevertheless, that it will be in the field of non-resident capital transactions that the next steps towards greater freedom will be taken. To begin with, the countries where capital accounts are still on a bilateral basis could make them freely transferable between all non-residents. This would allow holders a better opportunity of repatriating their money indirectly and at the same time it would probably reduce the volume of capital-account balances outstanding in these countries, since those who acquired them from other non-residents would presumably do so with a view to spending them.

Doing away with bilateral capital accounts, however, would only be a very minor step. Real liberalisation means, in the first place, giving non-residents greater freedom to make investments. This would involve enlarging the range of transactions for which capital is allowed to be freely imported. But greater freedom of entry will not by itself create the conditions necessary for a satisfactory flow of capital between different countries; in some countries where this freedom, in greater or less degree, already exists, the foreign investor is still obliged to take the risks involved in a free exchange rate when he wishes to repatriate his money. It is therefore desirable that where capital is allowed to enter a country at official rates of exchange it should be able to leave in the same way.

So far as the export of capital by residents is concerned, it would be possible, at any rate in countries where a separate exchange market for non-residents' capital transactions exists, to allow residents to use this market for placing their capital abroad, as has been done in the B.L.E.U. But again there are the disadvantages, from the investor's point of view, of a free exchange rate and therefore, for residents too, real freedom to invest in other countries means freedom to use the official exchange market for this purpose. Whatever may be the method chosen by different countries, however, greater liberty for movements of non-resident and resident capital would complement the progress already achieved in the field of current payments towards making the international monetary system more flexible and therefore better able to adapt itself to changing patterns or trends of economic activity.

Official currency values — Middle of May 1959.¹

Country	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
Europe					
Albania	Lek	—	50.—	140.—	Rates fixed on 11th July 1947.
Austria	Schilling	.0341796	26.—	72.805 ²	IMF parity since 4th May 1953.
Belgium	Franc	.0177734	50.—	140.005 ²	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130687	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	19.3425 ²	IMF parity since 18th Sept. 1949.
Finland	Markka	.00277710	320.—	896.—	IMF parity since 15th Sept. 1957.
France	Franc	.00180000	493.706	1,382.425 ²	IMF parity since 29th Dec. 1958.
Germany (eastern)	D.Mark	.399902	2.222	6.22	Rates fixed on 29th October 1953.
Germany (Fed. Rep.)	D.Mark	.211588	4.20	11.76 ²	IMF parity since 30th Jan. 1953.
Greece	Draohma	—	30.—	84.—	Official rates since 1st May 1954.
Hungary	Forint	.07570023	11.74	32.87	Official rates since 1st Aug. 1946.
Iceland	Króna	.0545676	16.2857	45.60	IMF parity since 20th March 1950.
Ireland	Pound	2.48828	.357143	1.—	IMF parity since 14th May 1958.
Italy	Lira	—	625.—	1,750.— ²	No IMF parity fixed.
Luxemburg	Franc	.0177734	50.—	140.005 ²	IMF parity since 22nd Sept. 1949.
Netherlands	Florin	.233661	3.80	10.665 ²	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286	20.0075 ²	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.—	11.20	Rates fixed on 30th Oct. 1950.
Portugal	Escudo	—	28.75	80.50625 ²	Rates fixed on 21st Sept. 1949.
Rumania	Leu	.148112	6.—	16.80	Rates fixed on 1st February 1954.
Spain	Peseta	—	42.135	118.10	Basic rates since 12th April 1957.
Sweden	Krona	.171783	5.17321	14.485 ²	IMF parity since 5th Nov. 1951.
Switzerland	Franc	.203226	4.37282	12.244375 ²	Official parity.
Turkey	Lira	.317382	2.80	7.84	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143	1.—	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00296224	300.—	840.—	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.—	11.20	Rates fixed on 1st March 1950.
North America					
Canada	Dollar	—	³	³	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	—	11,885.—	33,278.—	Official selling rate since Jan. 1959.
Brazil	Cruzeiro	.0480363	18.50	51.60	IMF parity since 14th July 1948.
Chile	Peso	.00807883	110.—	308.—	IMF parity since 5th Oct. 1953.
Colombia	Peso	.455733	1.84998	5.459944	IMF parity since 17th Dec. 1948.
Ecuador	Sucre	.0592447	15.—	42.—	IMF parity since 1st Dec. 1950.

¹ The International Monetary Fund gives only parities in grammes of fine gold and in U.S. dollars. The rates in pounds sterling are calculated via the official parity of \$2.80 for £1, except for certain European currencies for which the official middle rate on the pound has been taken. ² Official middle rate. ³ Market rates in the middle of May 1959 were U.S.\$1 = Can.\$ 0.9634 and £1 = Can.\$ 2.70.

Official currency values — Middle of May 1959 (continued).

Country	Currency	Grammes of fine gold	1 U.S. dollar	1 pound sterling	Remarks
South America (continued)					
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	4.25-5.88	Official basic buying and selling rates since 15th Sept. 1955.
Venezuela	Bolivar	.265275	3.35	9.38	IMF parity since 18th April 1947.
Africa					
Egypt	Pound	2.55187	.348242	.975078	IMF parity since 16th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	6.956518	IMF parity since 18th Dec. 1946.
Federation of Rhodesia and Nyasaland	Pound	2.48828	.357143	1.—	IMF parity since 18th Sept. 1949.
Ghana	Pound	2.48828	.357143	1.—	IMF parity since 5th Nov. 1958.
Liberia	Dollar	.888671	1.—	2.80	Parity with the U.S. dollar since 1st January 1944.
Libya	Pound	—	.357143	1.—	Official rates since 24th March 1952.
Morocco	Franc	—	420.18	1,176.50	No IMF parity fixed.
Sudan	Pound	2.55187	.348242	.975078	IMF parity since 23rd July 1956.
Tunisia	Dinar	—	420	1,176	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	13½	IMF parity since 7th August 1953.
Cambodia	Real	.0253905	35.—	98.—	Official parity since 26th March 1956.
Ceylon	Rupee	.186621	4.7619	13½	IMF parity since 16th January 1952.
China	Yen Min Piao	—	2.46	6.893	Official rates since 1st March 1955.
India ²	Rupee	.186621	4.7619	13½	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	—	1.20	3.36	Calculated over parity with Rouble (Won 1 = Roubles 3.33).
Korea (South)	Hwan	—	500.—	1,400.—	Official rates since 15th Aug. 1955.
Laos	Kip	—	80.—	224.—	Official parity since 6th Oct. 1958.
Lebanon	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Malaya	Dollar	.290299	3.061	8.571	Official parity since 19th Sept. 1949.
Pakistan	Rupee	.186621	4.7619	13½	IMF parity since 31st July 1955.
Philippines	Peso	.444335	2.—	5.60	IMF parity since 18th Dec. 1946.
Syria	Pound	.405512	2.19148	6.136144	IMF parity since 29th July 1947.
Taiwan	Dollar	—	36.23	101.44	Basic middle rates since 21st Nov. 1958.
Thailand	Baht	.0444335	20.—	56.—	Official parity since 18th March 1955.
Vietnam (North)	Dong	—	2.94	8.24	Calculated over parity with Rouble (Dong 1 = 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 31st March 1959 were Soles 24.70 = U.S.\$1 and Soles 77.50 = £1.
² Includes Portuguese possessions in India.

VIII. From the European Payments Union to the European Monetary Agreement.

The Agreement for the Establishment of the European Payments Union terminated at the close of business on 27th December 1958 and the European Monetary Agreement then came into force.

Previous Annual Reports have reviewed the development and practical working of the European Payments Union from its inception in June 1950 to March 1958; this narrative is concluded in the first part of the present chapter, which deals with:

1. the prolongation of the Union after June 1958;
2. the operations up to 27th December 1958;¹ and
3. the liquidation of the Union as at 27th December 1958.

The second part of the chapter describes the coming into force of the European Monetary Agreement and the first operations of the European Fund and the Multilateral System of Settlements.

European Payments Union.

1. Prolongation of the Union after June 1958.

By a Decision of the Council of the Organisation for European Economic Co-operation taken on 27th June 1958, the life of the Union was extended for a further year from 1st July 1958; the provisions whereby the Union might be terminated on condition that the European Monetary Agreement came into force were maintained. The normal mechanism of the Union remained unaltered; a Decision was taken, however, laying down the way in which the special credits granted to the Union and to France in 1958 would be dealt with in the event of liquidation. Some new credit facilities were opened and voluntary repayments of credit were made by two debtor countries but generally the Union continued to function in the same manner as in the previous year; settlements continued to be made on a 75 per cent. gold and 25 per cent. credit basis.

The "rallonges" (facilities for the settlement of surpluses and deficits beyond the quotas) of two creditor countries, Belgium and Switzerland (\$100 and 250 million respectively²), which had been determined in June 1956, were renewed unchanged for a further year; for Germany an "open-end" rallonge (without limit as to amount) had been established in November 1956 and this too was renewed without change.

In connection with the renewal of the Union and upon fulfilment of the condition that the terms of renewal were agreed to by all member countries,

¹ Throughout this chapter reference to the month of December 1958 should be taken to mean the period from 1st to 27th December 1958.

² For convenience the dollar sign (\$) is used throughout the text of this chapter, whether the amount referred to is in U.S. dollars, gold, E. P. U. units of account or E. M. A. units of account.

voluntary payments of gold were made to the Union in July 1958 by Italy and Portugal. Italy paid \$50 million direct in gold and Portugal made available \$15 million out of the gold previously paid voluntarily (in excess of the required 75 per cent.) to the Union. The cumulative accounting deficit of both countries was reduced by four times the amount of the gold paid.

The total amount, \$65 million, was distributed to the cumulative creditors of the Union in proportion to their total claims after the operations for May 1958, as shown in the following table. Ordinary credit granted by each of these countries was correspondingly reduced by the amounts of these repayments and their cumulative accounting surplus by four times.

E.P.U.: Distribution to creditors of gold paid by Italy and Portugal on renewal of the Union, July 1958.

Repayments by	Repayments to					Totals
	Austria	Belgium	Germany	Netherlands	Sweden	
	In thousands of units of account					
Italy	44	6,380	39,627	3,792	157	50,000
Portugal	13	1,914	11,888	1,138	47	15,000
Totals	57	8,294	51,515	4,930	204	65,000

The rallonges of debtor countries were continued. The Council approved the continuation of France's rallonge of \$400 million, which had been granted by the Council in February 1958, for the second half of 1958. This rallonge had been merged with that of \$200 million granted in June 1957 to give France additional facilities of \$600 million for settlements beyond the quota. In addition special credit of up to \$150 million had been made available to discharge France's gold obligation within the \$400 million rallonge: \$80 million could be drawn up to June 1958; the utilisation of the remaining \$70 million was approved by the Council, this amount being made available for the remainder of the calendar year.

Turkey was granted further settlement facilities of \$100 million on a 75 per cent. gold/25 per cent. credit basis above its cumulative accounting deficit after the June 1958 operations; only \$50 million was available before December 1958.

2. Operations of the Union to December 1958.

The following paragraphs give the main facts concerning the compensations, the settlement mechanism and the management of the fund of the Union during the final months' operations.

A. THE COMPENSATIONS.

During the 102 months' life of the Union, the gross bilateral surpluses (equal to the gross bilateral deficits) totalled the equivalent of \$23.2 milliard in the national currencies of member countries; of this amount \$16.8 milliard, i.e. 73 per cent., had been compensated in the operations of the Union,

leaving \$6.4 milliard, being the cumulative net surpluses (and deficits) to be dealt with by the settlement mechanism of the Union.

The statistics in the table are on a monthly basis and the net figures do not include interest on credits granted and received, which was paid by adjustment of the net positions each June and December (except interest on the special credits paid directly in cash).

E.P.U.: Compensation mechanism — January to December 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 1957 . .	20,725	9,952	6,269	15,222	5,503
1958 January	144	70	56	126	18
February	251	66	269	337	(-86)
March	190	80	68	148	41
April	162	71	35	106	56
May	236	91	22	113	123
June	206	74	37	111	95
July	208	87	39	126	81
August	134	65	24	89	45
September	165	67	17	83	82
October	181	68	24	92	89
November	205	101	23	124	81
December	418	134	33	167	251
Totals to December 1958 . .	23,223	9,927	6,918	16,845	6,379

* Earlier figures are given in the Twenty-eighth and previous Annual Reports, which contain detailed footnotes to this and other tables.

In 1958 the level of gross bilateral surpluses and deficits fell considerably from the high level of 1957 (monthly average \$297 million); apart from the final operations of the Union in December 1958, the highest level reached was \$251 million in February, while the monthly average was \$208 million.

B. THE SETTLEMENT MECHANISM.

All settlements within the quotas and rallonges continued to be made on a 75:25 gold and credit basis, debtors in excess of both quota and rallonge settling 100 per cent. in gold. The tables on the following page illustrate the operation of the settlement mechanism for 1958 on a cumulative basis (including interest in the net positions).

In 1958 the cumulative net surpluses and deficits increased by about \$910 million; the cumulative accounting surpluses rose in the same period by approximately one-quarter of this amount (\$213 million) and the cumulative accounting deficits by only one-tenth (\$81 million). The difference between the total of the net and accounting positions is principally due to the net effect of bilateral repayments of credit amounting to \$188 million:

to maintain the accounting positions at four times the amount of ordinary credit in the Union, the accounting positions were reduced by four times that amount. The accounting surpluses increased by a larger amount than the accounting deficits, chiefly as a result of France's paying \$125 million in 100 per cent. gold settlement of its deficit after its quota and rallonges were exhausted in December 1958; this was a pre-quota settlement under Article 10 bis and did not increase France's cumulative accounting deficit.

**E.P.U.: Settlement mechanism — cumulative surpluses and deficits,
January to December 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	Adjustments
in millions of units of account								
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
April . . .	5,699	– 196	– 493	– 41	4,970	1,242	3,533	+ 194
May	5,822	– 196	– 495	– 57	5,074	1,269	3,614	+ 191
June	5,935	– 194	– 799	– 57	4,884	1,221	3,769	– 106
July	6,016	– 182	– 910	– 57	4,867	1,217	3,838	– 188
August . .	6,060	– 171	– 947	– 65	4,878	1,220	3,869	– 211
September	6,141	– 174	– 960	– 75	4,912	1,228	3,921	– 237
October . .	6,219	– 179	– 983	– 88	4,969	1,242	3,971	– 244
November .	6,296	– 174	– 985	– 107	5,030	1,258	4,017	– 244
December .	6,581	– 171	– 1,038	– 112	5,260	1,315	4,205	– 281

DEBTORS — cumulative deficits.

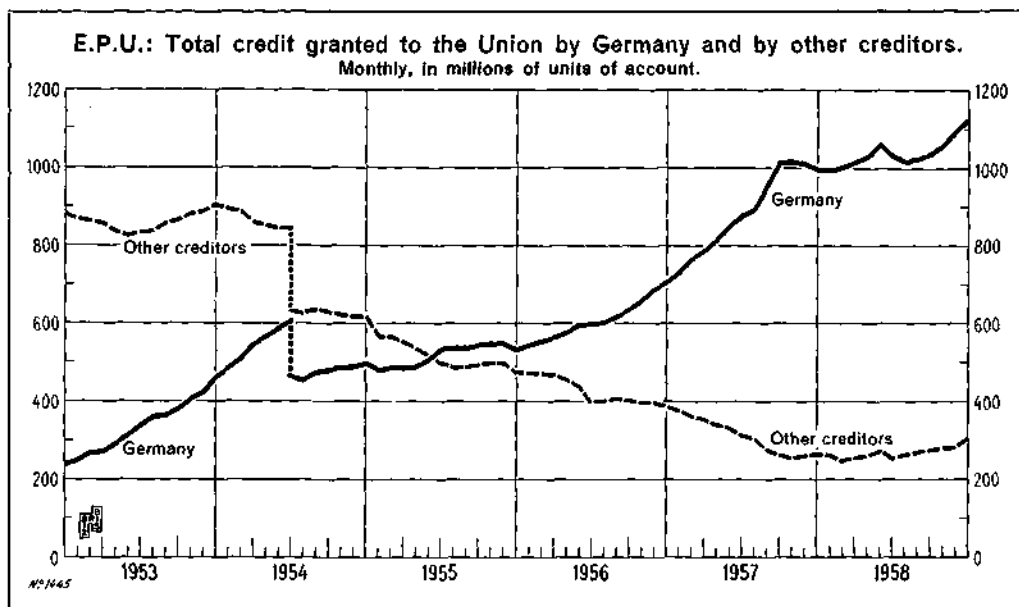
Month	Cumulative net deficits (including interest)	Net reduction (–) or increase (+) due to			Cumulative accounting deficits	Settlement of cumulative accounting deficits		
		Ante-quota settlements and adjustments	General adjustments	Settlements under Art. 10 bis		Credit within and outside quotas	Gold Actual payments	Adjustments
in millions of units of account								
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	4,606	1,019	3,150	+ 437
April . . .	5,693	– 548	– 254	– 254	4,636	1,023	3,180	+ 433
May	5,816	– 548	– 251	– 275	4,741	1,045	3,262	+ 435
June	5,927	– 546	– 556	– 290	4,545	1,011	3,396	+ 138
July	6,008	– 534	– 667	– 280	4,527	1,004	3,468	+ 56
August . .	6,053	– 523	– 701	– 290	4,539	1,007	3,497	+ 35
September	6,133	– 526	– 731	– 304	4,572	1,013	3,548	+ 12
October . .	6,212	– 531	– 730	– 320	4,630	1,023	3,598	+ 9
November .	6,298	– 526	– 727	– 345	4,691	1,036	3,641	+ 14
December .	6,572	– 524	– 779	– 475	4,794	1,117	3,679	– 2

E.P.U.: Movement of ordinary credit, June 1954 to December 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 (net)	553	553
By Union	130	—
By France, Italy and Portugal	207	207
Total repayments	1,174	1,044
New credit granted and received (net)	1,072	1,019
Outstanding December 1958		
Within quotas	588	941
Outside quotas	727	177
Total credit	1,315	1,117

The settlement mechanism functioned smoothly during 1958 and the very high positions in the late summer of 1957 were not approached at any time until the final operations in December. The continued bilateral repayments of credit based on the amortisation agreements signed in June 1954 and referred to in the previous paragraph continued to assist in keeping the total volume of credit from expanding. Before these special repayment measures came into operation, credit positions had become somewhat extreme. Four creditors (Austria, Belgium, Germany and Switzerland) had exceeded their quotas and 27 per cent. of the total credit granted to the Union was by way of rallonge. On the termination of the Union, Germany was the only creditor beyond its quota, but the rallonge percentage had increased to 55 per cent. New ordinary credit granted by Germany during 1958 amounted to only \$30 million whereas the total credit granted by Germany amounted to \$1,127 million (including \$100 million special credit).

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No debtor rallonges existed before June 1954; rallonges were subsequently granted to a number of countries and, in December 1958, were utilised by France and Turkey. At the termination of the Union the rallonge percentage of total credit granted by the Union was 16 per cent.

France utilised the whole of its \$400 million additional stretch of rallonge (see page 203) during 1958 and also drew the whole of the \$150 million special credit which had been made available to discharge its gold obligation within the rallonge: \$80 million of the special credit was drawn between February and May 1958 and the balance of \$70 million between August and November 1958. The special credits made available to the Union by certain member countries (Austria, Belgium, Germany, Italy and Switzerland), totalling \$118 million, were consequently also fully drawn in the same period. 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 fell directly upon the gold and dollar holdings of the Union and may be taken to represent the Union's own contribution to the operation.

E.P.U.: Special credits by and to the Union during 1958.

Member countries	Total amount available*	Amounts drawn for the operations of							
		Feb.	March	April	May	August	Sept.	Oct.	Nov.
In millions of units of account									
Credit from Union to France	150.0	19.5	21.0	16.5	23.0	10.5	18.0	18.0	26.5
Credit to Union from:									
Austria	1.5	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.3
Belgium	5.5	0.7	0.8	0.6	0.8	0.4	0.6	0.7	1.0
Germany	100.0	13.0	14.0	11.0	15.3	7.0	10.0	12.0	17.7
Italy	5.0	0.7	0.7	0.6	0.8	0.4	0.5	0.6	0.9
Switzerland	6.0	0.8	0.8	0.7	0.9	0.4	0.6	0.7	1.1
Total	118.0	15.3	16.5	13.0	18.1	8.3	11.8	14.2	20.8

* Fully drawn by November 1958.

C. MANAGEMENT OF THE FUND OF THE UNION.

During the Union's ninth financial year, Dr. von Mangoldt continued in the capacity of Chairman of the Managing Board which, at its 105th session in January 1959, approved the Report of the Agent on the Liquidation of the Union. The Board met, as in previous years, approximately once a month and its routine business included, in addition to studies of the economic positions of member countries, the examination and approbation of the Agent's Reports on the operations, which were then forwarded to the Council of O.E.E.C. to be finally approved. The Board was responsible for the management and investment of the Union's liquid resources and periodically reviewed the rates of interest payable on credit granted to and by the Union. The Board has continued to meet in 1959, when necessary, to deal with matters relating to the Union arising after the liquidation.

The rate of interest on ordinary credit remained unaltered from July 1954; a rate of 3½ per cent. was paid by France on credit drawn within the rallowge of \$600 million and by Turkey within its additional settlement facilities of \$100 million. The special credits bore interest of 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			special arrange- ments outside quotas	Interest payable to creditors by Union	
	within quotas and rallowges				within quotas	outside quotas
	months outstanding					
	1-12	13-24	over 24	In percentages per annum		
First year (1950-51) . .	2	2¼	2½	2¼	2	2
Second year (1951-52) . .	2¼	2¼	2¼	2%	2	2
Third year (1952-53) . .	2¼	2¼	3	2%	2¼	2¼
Fourth year (1953-54) . .	2½	3	3%	—	2%	3
Fifth year (1954-55) . .	2%	3	3%	—	2%	3
Sixth year (1955-56) . .	2%	3	3%	3%	2%	3
Seventh year (1956-57) . .	2%	3	3%	3%	2%	3
Eighth year (1957-58) . .	2%	3	3%	3%	2%	3
				4%		4%
Ninth year (1958-59) . .	2%	3	3%	3½	2%	3
				4%		4%

Up to December 1958 gross interest (excluding interest on the special credits) paid by the Union totalled \$227.5 million, while the amount received was \$218.5 million; the excess of interest paid by the Union was therefore \$9 million. Interest was calculated half-yearly and debited or credited to the net positions of member countries in June and December. The interest deficit was covered by the yield from the investments of the Union.

Germany received the largest net amount in respect of interest on credit granted (\$107.7 million), followed by Belgium (\$42.0 million), the Netherlands (\$24.2 million) and Switzerland (\$18.7 million). Of the debtors, the United Kingdom paid an amount of \$83.4 million and France \$53.2 million.

The gold and dollar holdings of the Union remained reasonably stable for the greater part of 1958. Early in the year the price of gold on the London market, which had been below the equivalent of \$35 per fine ounce since the autumn of 1956, rose above \$35 per fine ounce. It thus became more advantageous for debtors to discharge their obligations to the Union in U.S. dollars rather than in gold. This factor influenced the composition of the Union's liquid resources between December 1957 and March 1958, the dollar assets increasing while the gold holdings declined.

From March to November 1958 the gold holdings remained stable but they fell sharply in December when the high positions in the final operations made it necessary to pay out most of the Union's gold holdings to the

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	254	2	390
1957 June	124	209	53	386
December	124	240	70	433
1958 March	124	126	196	445
June	124	126	181	431
September	124	126	181	431
December	124	25	255	404

¹ Lowest point reached. ² Highest point reached.

creditors. They were not replenished as the debtors of the Union all discharged their obligations by paying in U.S. dollars.

The Union's total holdings of gold and dollars fell during 1958 by a net amount of \$29 million. Repayments to Portugal and Switzerland of previous voluntary gold payments totalling \$72 million, and the Union's contribution to the special credit to France (\$32 million), were only partially compensated by in-payments (above the 75 per cent.) of \$40 million (by France, Portugal and Turkey) and voluntary gold payments by Portugal and Switzerland in the course of the year, of \$35 million.

D. POSITION OF THE UNION AS AT END DECEMBER 1958.

The following table summarises, in annual and quarterly figures, the Statement of Account of the Union. Amounts by way of initial balances disappeared after the first year of the Union and since then the assets side of the statement contained only the liquid resources (gold and U.S. dollars) and the credits granted by the Union, while the liabilities comprised the capital of the Union and the credits received.

The totals of the statement, of liquid resources and of credits received attained very high figures in June 1954 before the adjustments and special repayments arranged at that time; these figures declined from that date until

E.P.U.: Summary of Statement of Account,
from opening (July 1950) to December 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
June	431	—	1,126	1,557	272	—	1,284
September	431	—	1,153	1,584	272	—	1,311
December	404	—	1,302	1,706	272	—	1,433

the middle of 1956 but thereafter they rose steadily and, in the case of the total of credits granted and received, had, by December 1958, surpassed the figures for June 1954.

The next table shows the financial position of the Union after the final operations had been completed. The cross-section given of the situation of member countries shows 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. The figures shown in the column "Settlements under Article 10 bis" denote special credits, except for \$321 million relating to France and \$10 million relating to Portugal: these amounts represent gold formerly paid in 100 per cent. settlement of deficits which would have been recoverable in certain circumstances had the Union remained in existence.

Portugal and Switzerland, which had settled their accounting deficits by voluntary 100 per cent. payments in gold, requested to be repaid the amounts

E.P.U.: Cumulative positions of member countries, July 1950 to December 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 . . .	- 58	+ 125	- 45	- 2	+ 5	+ 42	- 26	+ 21
Belgium . . .	+ 1,234	- 286	- 327	- 6	+ 154	+ 599	- 138	+ 615
Denmark . .	- 272	- 5	+ 15	-	- 65	- 121	- 75	- 262
France . . .	- 2,953	+ 238	+ 305	+ 150 + 321	- 485	- 1,593	+ 139	- 1,939
Germany . .	+ 4,581	+ 12	- 386	- 100	+ 1,027	+ 3,119	- 39	+ 4,107
Greece . . .	- 317	+ 269	-	-	- 12	- 36	-	- 48
Iceland . . .	- 44	+ 15	- 0	-	- 7	- 17	- 5	- 29
Italy	- 435	+ 43	+ 425	- 5	+ 7	- 246	+ 266	+ 28
Netherlands .	+ 581	+ 30	- 127	-	+ 121	+ 360	+ 3	+ 484
Norway . . .	- 360	+ 60	- 49	-	- 87	- 144	- 117	- 348
Portugal . .	- 173	- 3	+ 20	+ 10	- 36	- 138	+ 29	- 146
Sweden . . .	+ 146	+ 6	- 148	-	+ 1	+ 85	- 82	+ 4
Switzerland .	+ 39	-	- 80	- 6	- 12	- 39	+ 4	- 47
Turkey . . .	- 481	+ 92	- 70	-	- 34	- 356	- 70	- 450
United Kingdom .	- 1,479	- 243	+ 207	-	- 379	- 988	- 148	- 1,515
Cumulative creditors .	+ 6,591	- 171	- 1,038	- 112	+ 1,315	+ 4,205	- 261	+ 5,260
debtors . .	- 6,572	+ 524	+ 779	+ 475	- 1,117	- 3,679	+ 2	- 4,794
Net totals . . .	+ 9	+ 352	- 259	+ 363	+ 198	+ 527	- 259	+ 466

of gold outstanding in the final operations. Credit was accordingly granted to these two countries by the Union for the amounts of the repayments (\$35 million and \$12 million respectively) and debtor positions established.

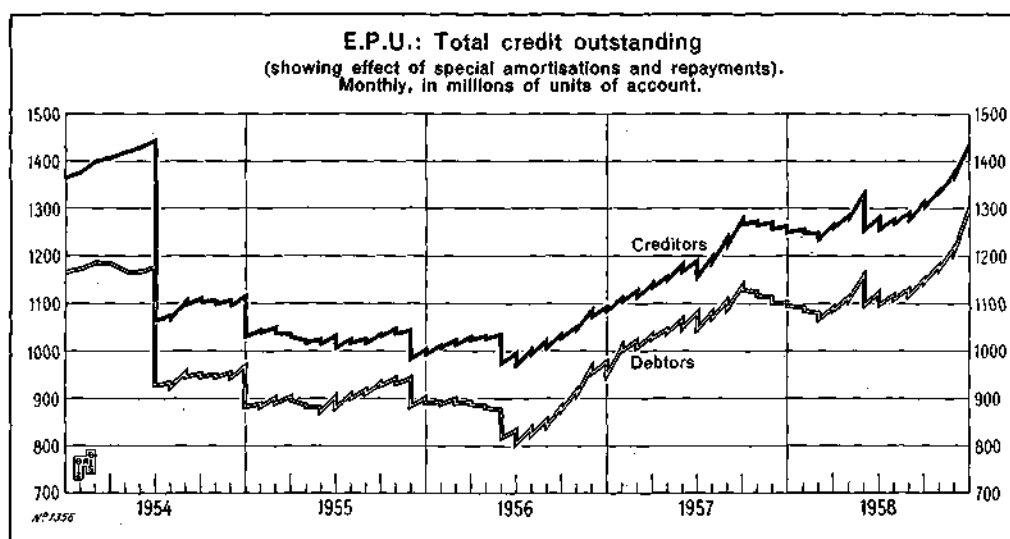
No new bilateral amortisation agreements were concluded during 1958. The following table shows the total of claims and debts covered by the fifty-two repayment and amortisation agreements concluded, the amounts already amortised (being the credit repaid) and the amounts outstanding at the end of December 1958; 64 per cent. of the amount of credit covered by these agreements had been repaid by the conclusion of the operations of the Union.

But for the repayments of credit under these amortisation agreements, which came into force in July 1954, and other repayments which have taken place since that date, the figures for credits granted and received would have been considerably higher. The following graph and the table on page 213 clearly show the effect of these repayments in keeping down the total volume of credit and enable a comparison to be made between the development of bilateral repayments and the new credit granted and received since June 1954.

E.P.U.: Bilateral amortisation agreements — position at end December 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	19	14	Denmark	130	90	40
Belgium	261	189	92	France	232	166	66
Germany	552	347	205	Iceland	5	4	1
Netherlands	194	130	63	Italy	268	159	109
Portugal	24	8	16	Norway	109	69	40
Sweden	88	66	22	United Kingdom	570	355	215
Switzerland	142	84	58				
Totals	1,314	843	471	Totals	1,314	843	471

The table applies to ordinary credit only and thus omits the special credits granted in 1958 and, on the debtor side, the longer-term loans to Norway and Turkey; the graph, on the other hand, includes all credit granted and received.



It can be seen from the graph that up to the middle of 1956 bilateral repayments of credit were larger than the amounts of new credit granted but that since this date the tendency has been for new credit to exceed the bilateral repayments, although something like equilibrium was achieved in the last quarter of 1957 and the early part of 1958.

Over the whole period Denmark, Italy, Norway and the United Kingdom all repaid more credit bilaterally than they received in the operations — Italy to such an extent that it became a cumulative creditor of the Union in the final operations. On the creditor side, only Germany granted more credit than was repaid to it. The credit positions of Austria, Sweden and Switzerland were all reduced on account of deficits in current operations, as well

E.P.U.: Ordinary credit amortised and new credit received and granted by countries, June 1954 to December 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 December 1958
	in millions of units of account			
Denmark	98	90	58	65
France	312	296	468	485
Greece	—	—	12	12
Iceland	6	4	6	7
Italy	122	215	93	—
Norway	89	69	66	87
Portugal	—	15	51	36
Switzerland	—	—	12	12
Turkey	30	—	4	34
United Kingdom	485	355	248	379
Totals	1,142	1,044	1,019	1,117

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 December 1958
	in millions of units of account			
Austria	73	28	(— 39)	5
Belgium	217	235	171	154
Germany	604	539	962	1,027
Italy	—	(+ 5)*	1	7
Netherlands	207	173	87	121
Portugal	30	12	(— 18)	—
Sweden	105	79	(— 25)	1
Switzerland	181	115	(— 67)	—
Totals	1,416	1,174	1,072	1,315

* New credit granted as a result of bilateral repayment instalments made.

as of bilateral repayments received by those countries. Portugal and Switzerland were both debtors of the Union in 1958 (Switzerland from February) and payments under their bilateral agreements (concluded when they were creditors) were therefore suspended.

In view of the arrangements made for the repayment of credit outstanding within the Union at the time of its liquidation, mentioned in the next section of this chapter, the length of time for which such credit has been outstanding is of some interest. About half of the credit, both granted and received, outstanding at the conclusion of the final operations of the Union had been outstanding for at least three years. During the past year the tendency has been for the positions of most member countries to remain fairly stable. On the debtor side, credit outstanding therefore tended simply to

become a year older. Hence the decrease in credit of one year and less and the increase in credit outstanding for a period of between one and three years. The total of credit outstanding for over three years decreased mainly as a result of the steady repayment of credit by Italy during the year.

On the creditors' side, the same tendency is apparent. The amount of credit outstanding for one year and less fell considerably (helped by the reduction of creditors' positions resulting from the special repayments by Italy and Portugal), while that outstanding for longer periods rose in the aggregate by about the same amount. It may be recalled in this connection that, in accordance with the cumulative principle, repayment of credit arising from bilateral amortisation instalments, special repayments and normal reversals of position always applied to the most recently created debt.

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	508	817
December	190	80	79	580	929
1957 September	340	32	80	618	1,069
December	283	135	54	628	1,080
1958 March	149	215	48	612	1,024
June	147	258	48	592	1,044
September	106	303	31	564	1,005
December	151	200	135	549	1,035
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	48	186	661	992
1956 September	134	84	80	721	1,019
December	193	97	25	769	1,084
1957 September	382	94	57	702	1,235
December	370	163	69	869	1,270
1958 March	249	232	80	669	1,231
June	230	271	74	693	1,268
September	77	340	93	708	1,218
December	83	289	155	719	1,257

3. Liquidation of the Union.

When the European Monetary Agreement was signed, a clause had been added to the Agreement for the Establishment of the European Payments Union which provided that, if member countries whose quotas in aggregate amounted to more than 50 per cent. of the total quotas gave notice of their intention to apply the European Monetary Agreement, the European Payments Union would automatically cease to exist and the European Monetary Agreement would come into force. On 27th December 1958, Belgium and Luxemburg, France, Germany, Italy, the Netherlands and the United Kingdom, whose quotas totalled 72 per cent. of the total, notified the Secretary-General of O.E.E.C. that they wished to terminate the European Payments Union. The Secretary-General accordingly informed all member countries and the Agent that the Agreement for the Establishment of a European Payments Union terminated at the close of business on 27th December 1958 and the European Monetary Agreement then came into operation. As mentioned earlier in this chapter, the final accounting period of the Union accordingly ended on that date and, after the calculations for these operations had been made, the Agent proceeded to liquidate the Union.

**E.P.U.: Assets and Liabilities as at the close of business
on 15th January 1959.**

Assets	in units of account	Liabilities	in units of account
Liquid resources		Capital Fund	271,575,000.—
(a) Amount obligated by the U.S. Government	123,538,000.—		
(b) Gold	24,853,501.46		
(c) U.S. dollars	255,301,793.66		
Ordinary credit granted to:		Ordinary credit received from:	
Denmark	65,496,000.—	Austria	5,299,000.—
France	484,750,000.—	Belgium	153,807,000.—
Greece	11,973,000.—	Germany	1,026,762,000.—
Iceland	7,192,000.—	Italy	6,950,000.—
Norway	87,099,000.—	Netherlands	120,977,000.—
Portugal	36,437,000.—	Sweden	1,124,000.—
Switzerland	11,824,000.—		
Turkey	33,791,000.—	Special credit received from:	
United Kingdom	378,958,000.—	Austria	1,500,000.—
Special credit granted to:		Belgium	5,500,000.—
France	150,000,000.—	Germany	100,000,000.—
		Italy	5,000,000.—
		Switzerland	6,000,000.—
Initial credit balances allotted as loans to:		Excess of income over ex- penditure from 1st July 1950 to 15th January 1959	1,621,280.14
Norway	10,000,000.—		
Turkey	25,000,000.—	Interest payable outstanding	2,709.—
Interest due outstanding	5,704.—		
Total	1,706,117,989.14	Total	1,706,117,989.14

The value date for the operations relating to the liquidation was 15th January 1959 and the calculations were accordingly based on a statement of the assets and liabilities of the Union drawn up at the close of business on that date. This established the final debit or credit position of each member country after the final operations of the Union had been completed.

The liquidation calculations were divided into two main stages. First, adjustments had to be made and operations carried out so that the assets and liabilities of the Union were reduced on one side to a total of credits granted by the Union, which equalled in aggregate the total of credits granted to the Union on the other: these credits included both the ordinary credit granted to and by the Union and the special credits granted to the Union and to France in 1958. Secondly, these claims and debts on the Union had to be converted into bilateral claims and debts between member countries.

The first stage began with the transfer to the European Fund of those assets which made up the \$272 million capital of the Union. These comprised \$113 million of the convertible assets of the Union (\$25 million in gold and \$88 million in U.S. dollars), the \$124 million representing the amount obligated by the U.S. Government and claims totalling \$35 million, corresponding to initial loans made at the outset of the Union to Norway (\$10 million) and Turkey (\$25 million).

The next step was to distribute the surplus remaining on the Union's income and expenditure account (\$1.6 million) among member countries (Ireland was included because, although it did not participate in the settlements, being part of the United Kingdom's monetary area, it was a signatory to the Agreement). Ireland was paid its share in cash; the shares of other member countries were applied to increase their net claims or decrease their net debts outstanding after the final operations.

The convertible assets of the Union remaining after the capital items had been transferred (\$167 million) were then distributed to those countries which were creditors of the Union after the final operations, in proportion to their amounts of ordinary credit outstanding. Each creditor was paid its share in U.S. dollars and its credit position in the Union was correspondingly reduced.

Finally, in order that the total of ordinary credit granted to the Union should equal the total of ordinary credit granted by the Union, one further adjustment had to be made to the creditor positions. When the special credit had been made available by the Union to France, \$32 million had been provided by drawing on the Union's own resources (see page 207). As a result of this, the creditors' share of the convertible assets of the Union distributed on liquidation was smaller in the aggregate by \$32 million than it would otherwise have been. Each creditor accordingly had a claim on the Union for that part of the \$32 million which it would have received had the \$32 million still formed part of the liquid assets of the Union on liquidation. These claims on the Union had to be converted, on liquidation, into claims on France and, as the repayment of the special credits was subject to

different repayment terms from the ordinary credit, had to be deducted from the total of ordinary creditors' claims and dealt with separately.

The effect of each of these adjustments and operations on the amounts of ordinary credit granted to or received by each member country is shown in the following table.

E.P.U.: Liquidation - Adjustments to and reductions of ordinary credit positions of member countries.

Member countries	Claims on (+) or debts to (-) Union after final operations	Distribution of excess of income over expenditure*	Ordinary credit repaid (-) equal to convertible assets distributed	Ordinary credit representing, on liquidation, creditors' claims on France and dealt with separately	Balance of ordinary credit to be converted into bilateral claims and debts
Austria	+ 5,299,000	+ 69,431	- 681,831	- 130,572	+ 4,556,028
Belgium	+ 153,807,000	+ 79,605	- 19,544,749	- 3,742,867	+ 130,598,989
Denmark	- 65,496,000	+ 35,250	-	-	- 65,460,750
France	- 484,750,000	+ 277,802	-	-	- 484,472,198
Germany	+ 1,026,762,000	+ 306,506	- 130,445,375	- 24,980,606	+ 871,642,525
Greece	- 11,973,000	+ 82,093	-	-	- 11,890,907
Iceland	- 7,192,000	+ 1,983	-	-	- 7,190,017
Italy	+ 6,950,000	+ 166,485	- 903,847	- 173,089	+ 6,039,549
Netherlands	+ 120,977,000	+ 107,558	- 15,378,843	- 2,945,048	+ 102,780,867
Norway	- 87,098,000	+ 36,713	-	-	- 87,061,287
Portugal	- 36,437,000	+ 12,522	-	-	- 36,424,478
Sweden	+ 1,124,000	+ 19,711	- 145,280	- 27,818	+ 970,633
Switzerland	- 11,824,000	+ 332	-	-	- 11,823,668
Turkey	- 33,791,000	+ 23,710	-	-	- 33,767,290
United Kingdom	- 378,853,000	+ 380,004	-	-	- 378,477,996
Total creditors	+1,314,919,000	+ 749,296	- 167,099,705	- 32,000,000	+1,116,568,591
Total debtors	-1,117,419,000	+ 850,409	-	-	-1,116,568,591
Net totals	+ 197,500,000	+ 1,599,705	- 167,099,705	- 32,000,000	-

* Including fractions of interest due to or from member countries outstanding after the final operations and excluding the amount due to Ireland of \$18,580 which was paid in cash.

As a result of these adjustments and operations, the total assets and liabilities of the Union were reduced to three sets of relationships or "circuits". The first circuit represented ordinary credit granted to and by the Union; the second, special credit granted by certain member countries to the Union and the corresponding debt of France; and the third, special credit made available to France from the Union's own resources which, on liquidation, represented claims of the Union's creditors and France's corresponding debt to those creditors.

These three circuits were then converted into bilateral claims and debts between member countries by means of a formula embodied in the liquidation provisions of the Agreement. Each debtor's debt to the Union and each creditor's claim on the Union was split up among all the other member countries in proportion to their respective quotas. Each member then had,

with every other member, two bilateral positions which were either added together or offset in order to arrive at a final bilateral position in each of the three circuits. Thus there were established, for each member country, three series of bilateral claims on or debts to the other member countries.

The bilateral claims or debts derived from the two special-credit circuits represent not actual claims and debts of member countries but liabilities contingent upon France's repayments to the former creditors of the Union. France is due to repay the \$150 million special credit in monthly instalments of \$5 million from January 1960 onwards, first to those countries which granted special credits to the Union (\$118 million) and, when these have been fully repaid, to the creditors of the Union in proportion to their claims on the remaining \$32 million. Repayments according to this schedule, or advance repayments, which France may make at any time, will be made direct to the creditor countries concerned and it will be the task of the Agent to keep

E.P.U.: Liquidation - Ordinary and special credit circuits.

1. Ordinary credit granted to the Union by:	In units of account	Ordinary credit granted by the Union to:	In units of account
Austria	4,556,028	Denmark	65,460,750
Belgium	130,598,989	France	484,472,198
Germany	871,842,525	Greece	11,890,907
Italy	6,039,549	Iceland	7,190,017
Netherlands	102,760,867	Norway	87,061,287
Sweden	970,633	Portugal	36,424,478
		Switzerland	11,823,668
		Turkey	33,767,290
		United Kingdom	378,477,996
Total	1,116,568,591	Total	1,116,568,591
2. Special credit granted to the Union by:			
Austria	1,500,000		
Belgium	5,500,000		
Germany	100,000,000		
Italy	5,000,000		
Switzerland	6,000,000		
Sub-total	118,000,000	Corresponding amount of special credit granted by the Union to France:	118,000,000
3. Claims of creditor countries, in respect of liquid assets of the Union granted as special credit:			
Austria	130,572		
Belgium	3,742,867		
Germany	24,980,606		
Italy	173,089		
Netherlands	2,945,048		
Sweden	27,818		
Sub-total	32,000,000	Corresponding amount of special credit granted by the Union to France:	32,000,000
Total	150,000,000	Total	150,000,000

E.P.U.: Liquidation - Bilateral claims and debts in respect of ordinary credit.

Bilateral debts of	Bilateral claims of															Total bilateral debts
	Germany	Belgium-Luxbg.	Netherlands	Austria	Italy	Sweden	Switzerland	Greece	Denmark	United Kingdom	Norway	Iceland	Portugal	Turkey	France	
in thousands of units of account																
France	167,386	58,320	54,253	8,732	24,659	30,437	27,670	3,759	14,545	76,229	12,424	849	3,603	1,604	—	484,472
Turkey	14,553	4,497	4,122	624	1,739	2,125	1,889	223	797	4,060	578	35	131	—	—	35,371
Portugal	19,068	5,356	4,843	690	1,899	2,296	1,992	194	607	2,916	287	10	—	—	—	40,158
Iceland	4,012	1,094	995	138	377	453	390	35	101	468	32	—	—	—	—	8,085
Norway	52,433	13,830	12,385	1,686	4,586	5,495	4,669	371	935	3,993	—	—	—	—	—	100,382
United Kingdom	267,913	66,110	58,553	7,539	20,214	23,931	19,756	1,065	1,063	—	—	—	—	—	—	466,144
Denmark	48,795	11,801	10,416	1,317	3,513	4,142	3,384	151	—	—	—	—	—	—	—	83,508
Greece	10,871	2,445	2,129	250	652	755	587	—	—	—	—	—	—	—	—	17,688
Switzerland	53,868	8,862	7,193	473	947	798	—	—	—	—	—	—	—	—	—	72,162
Sweden	54,426	8,088	6,347	269	330	—	—	—	—	—	—	—	—	—	—	69,461
Italy	42,278	5,920	4,554	123	—	—	—	—	—	—	—	—	—	—	—	52,876
Austria	14,136	1,805	1,342	—	—	—	—	—	—	—	—	—	—	—	—	17,284
Netherlands	62,107	2,255	—	—	—	—	—	—	—	—	—	—	—	—	—	64,361
Belgium-Luxbg.	59,805	—	—	—	—	—	—	—	—	—	—	—	—	—	—	59,805
Germany	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total bilateral claims	871,643	190,404	167,122	21,840	58,915	70,431	60,338	5,798	18,047	87,666	13,320	895	3,734	1,604	—	1,571,757

all other members informed of the amount of their contingent liability discharged through each payment by France.

The bilateral relationships calculated from the total of ordinary credit outstanding, on the other hand, represent actual bilateral claims and debts of member countries. Germany as the largest creditor, and France as the largest debtor, have claims and debts respectively vis-à-vis all other member countries. The total of their bilateral claims or debts is equal to their total claim or debt vis-à-vis the Union before the formula was applied. Other countries, however, have both debtor and creditor relationships with other member countries and they have concluded bilateral agreements providing for gross payments in some cases considerably in excess of their net claim or debt vis-à-vis the Union. Sweden, for example, with a net claim on the Union of just under \$1 million, has, as a result of the application of the formula, claims on nine member countries amounting to \$70 million and debts to five of \$69 million.

As shown in the table, 105 bilateral relationships were established. With the exception of Turkey's debts, which are to be repaid through the intermediary of the European Fund, bilateral agreements providing for the settlement of the outstanding claims and debts had been concluded in all but two of the relationships by the end of April 1959. Of the total, equivalent to \$1,572 million in the creditor countries' currencies, some \$950 million is scheduled to be repaid in the three years 1959-61 and virtually the whole amount should be discharged by 1965, seven years after the liquidation of the Union.

The liquidation calculations, incorporated in a report of the Agent to the Managing Board, were submitted to the Council of O.E.E.C., which approved them on 30th January 1959. This approval implied acceptance by all member countries of the figures contained in the calculations. The bilateral claims and debts described above were accordingly established, and the corresponding claims and debts vis-à-vis the Union cancelled, with retroactive effect to 15th January 1959. The liquidation of the Union was then complete.

European Monetary Agreement.

1. Coming into force of the European Monetary Agreement.

The European Monetary Agreement came into force immediately upon the termination of the European Payments Union at the close of business on 27th December 1958. This Agreement, prepared in the spring and summer of 1955 and signed on 5th August of that year, envisaged the introduction of some measure of convertibility for the currencies of members of the O.E.E.C.; this, in fact, took place simultaneously with the coming into force of the Agreement, the text of which, remained unchanged. A summary of the constitution of the European Monetary Agreement was given in the Twenty-sixth Annual Report of the Bank (pp. 211-214); the broad outlines of the Agreement may be recalled here.

**E.M.A. - European Fund:
Obligation of member countries
to pay contributions, as required.**

Member countries	Amounts, in thousands of units of account
Austria	5,000
Belgium	30,000
Denmark	15,000
France	42,000
Germany	42,000
Greece	2,850
Iceland	1,000
Italy	15,000
Netherlands	30,000
Norway	15,000
Portugal	5,000
Sweden	15,000
Switzerland	21,000
Turkey	3,000
United Kingdom	86,575
Total . . .	328,425

The Agreement has two principal features: the European Fund and the Multilateral System of Settlements.

The European Fund has a capital of \$600 million (\$272 million already transferred from the European Payments Union and \$328 million to be called up from member countries as and when required) and exists to provide short-term credit (up to two years) to member countries to overcome temporary balance-of-payments difficulties.

As mentioned on page 216, the assets of the Fund consist of \$272 million transferred from the European Payments Union: of this, \$124 million is the amount obligated by the U.S. Government which may be

drawn only when contributions are called up from member countries (as below).

Contributions, when needed to cover drawings on credits granted, are to be called up as shown in the table: first, \$148 million from member countries proportionately to their total contributions; then, \$247 million on a fifty-fifty basis from the U.S. Treasury and from member countries; finally, \$57 million, the balance of member countries' contributions (which amount may be deferred).

E.M.A. - European Fund: Call-up of capital.

	From E.P.U. capital	From members' contributions	Total
	In thousands of units of account		
Initial transfer from E.P.U.	148,037	—	148,037
To be called up as required:			296,074
Initial payments of members' contributions	—	148,037	148,037
In equal amounts from U.S. Government and members	123,538	123,538	247,076
Balance of members' contributions . . .	—	56,850	56,850
Total . . .	271,575	328,425	600,000

The Multilateral System of Settlements provides a framework within which members may, if they wish, settle certain specified claims and debts vis-à-vis other member countries monthly on pre-determined terms.

There is no longer an automatic credit element in the settlements as under the European Payments Union and all payments (to or by the Fund for account of the Multilateral System) are made in U.S. dollars. Furthermore, settlement of currency balances which are reported is made no longer at parity with the U.S. dollar but at rates fixed according to the nature of the balance which is brought in.

The main difference between this new settlement mechanism and the old is that, while under the European Payments Union it was only in exceptional cases that balances outstanding at the end of the month were excluded from the monthly settlement, under the European Monetary Agreement this is the normal practice; the vast majority of transactions between member countries are settled at current rates on the foreign exchange markets and only very exceptionally are amounts notified for settlement.

Indeed, only certain specified balances, set out in the Agreement, are brought into the settlement: outstanding balances of interim finance drawn, balances in respect of bilateral payments agreements which provide for credit margins, and balances held in the currency of another member country which the holder wishes to bring into the settlement. The first two types of balance

E.M.A.: Interim finance limits.

Member countries	Amounts, in thousands of U.S. dollars
Austria	5,000
Belgium	20,000
Denmark	12,000
France	32,000
Germany	30,000
Greece	7,500
Iceland	2,000
Italy	13,000
Netherlands	22,000
Norway	12,000
Portugal	5,000
Sweden	16,000
Switzerland	15,000
Turkey	7,500
United Kingdom	64,000

(if outstanding at the end of the month) must be brought into the settlement, the third may be brought in at the discretion of the country concerned. Interim finance, an important feature of the E.P.U. mechanism, is maintained but is more strictly regulated than before. All members have limits expressed in U.S. dollars which they are not permitted to exceed either as lenders of interim finance or as borrowers; any amounts of interim finance drawn have to be notified to the Agent, whose duty it is to see that these limits are not exceeded.

The settlement mechanism, although little used in the early months, has, nevertheless, an important function in giving member central banks an assurance that they may exchange their holdings of other members' currencies at pre-determined rates of exchange at the end of any month.

The System of Settlements was designed to operate for one year, to the end of 1959, and will be reviewed at the latest three months before the end of the year to determine whether it should be renewed for a further period and on what conditions. The European Fund will remain in existence for three years in the first instance and will be reviewed at the latest three months before the end of the third year to determine the conditions of its renewal.

When the European Monetary Agreement came into force, the central banks of member countries notified the rates they had fixed for buying and selling the U.S. dollar for the purpose of limiting the fluctuations of their currencies. The rates so fixed form the basis for the calculations and settlements provided for in the Agreement.

E.M.A.: Buying and selling rates for the U.S. dollar notified to the Agent.

Member country and currency	Central bank's buying rate for U.S. dollar	Central bank's selling rate for U.S. dollar	Parity or middle rate	Margins of buying rates (+) and selling rates (-) as percentages of parity
	in units of national currency per U.S. dollar			
Austria Sch.	25.80	26.20	26.—	± 0.769
Belgium B.fcs.	49.625	50.375	50.—	± 0.750
Denmark D.Kr.	6.8575	6.9575	6.90714	+ 0.719 - 0.729
France Fr.fcs.	4.90	4.974	4.937	± 0.749
Germany DM	4.17	4.23	4.20	± 0.714
Italy Lit.	620.50	629.50	625.—	± 0.720
Netherlands . . Fl.	3.77	3.83	3.80	± 0.789
Norway N.Kr.	7.09	7.20	7.14286	+ 0.740 - 0.800
Portugal Esc.	26.42	29.08	28.75	± 1.148
Sweden S.Kr.	5.1715	5.1750	5.17321	+ 0.033 - 0.035
Switzerland . . Sw.fcs.	4.295	4.45	4.37282	+ 1.780 - 1.765
United Kingdom* . . .	2.82	2.78	2.80	± 0.714

* U.S. dollars per £1.

Note: Greece, Iceland and Turkey have no obligation to fix buying and selling rates as their currencies are not quoted by other member central banks.

Bilateral payments agreements involving credit margins have, in accordance with the requirements of the European Monetary Agreement, been notified to O.E.E.C. Balances utilised under these agreements are brought into settlement in the monthly operations of the Multilateral System.

2. Operations under the European Monetary Agreement.

EUROPEAN FUND.

Applications for credits from the European Fund were received by the O.E.E.C. from Greece and from Turkey and after their cases had been considered by the Organisation these countries were granted gold credits equivalent to \$15 million and \$21.5 million respectively, for a period of two years from 16th February 1959 to 15th February 1961. These credits are on identical terms: they are revolving credits; drawings and repayments may be made at any time (drawings at seven days' notice); interest is at 3½ per cent. per annum on amounts drawn, payable half-yearly; amounts undrawn carry a service charge of ¼ per cent. per annum; all drawings, repayments, interest and service charges are paid in gold.

The Agreement stipulates that the liquid assets of the European Fund are to be maintained at a level equivalent to \$100 million; as the cash holding transferred from the European Payments Union amounted to \$113 million, and the credits granted by the European Fund already in its early days totalled \$36.5 million, it was clear that the level of the Fund's liquid assets

might well fall below \$100 million when the credits were drawn upon and a partial call-up of member countries' contributions to the European Fund would become necessary.

MULTILATERAL SYSTEM OF SETTLEMENTS.

The first accounting period of the Multilateral System ended on 31st January 1959 and subsequent accounting periods have run for each calendar month. Three settlements had taken place up to the end of March 1959; the total of the bilateral claims and debts settled in this period was small. Interim finance was drawn by a few member countries but all drawings were repaid before the end of the month. The only balances brought into the settlements have been those held in respect of bilateral payments agreements between certain member countries; these balances are settled at rates agreed between the two countries concerned. It seems clear from the small amounts brought into the system each month that member countries prefer to settle their transactions through the medium of the foreign exchange markets.

The European Fund and the Multilateral System of Settlements are operated under the Council of O.E.E.C. by a Board of Management and by the Bank for International Settlements, acting as Agent. The day-to-day administration is under the supervision of the Board of Management; this body, like the Managing Board of the European Payments Union, is a committee of experts drawn from member countries. On the coming into force of the European Monetary Agreement, the persons who were members of the Managing Board were reappointed without change as members of the new Board of Management. For the first few months of 1959, members have met in a dual capacity — as Managing Board presiding over the termination of the European Payments Union, and as Board of Management supervising the operations of the European Fund and of the System of Settlements. It is to the Board of Management that the Agent presents the monthly Reports on the operations.

* * *

The European Payments Union, formed in July 1950 on a two-year basis as a successor to the drawing-rights and compensation schemes of the early post-war years, proved sufficiently flexible to form a satisfactory mechanism through which the greater part of the European, and therefore a considerable part of the world's, trade and financial transactions were channelled. As exchange restrictions were progressively relaxed in recent years, it was realised that, with a general return to some measure of convertibility, the E.P.U. mechanism would no longer be sufficient. The European Monetary Agreement was accordingly drawn up in anticipation of a change and has been in operation since the end of last year. Monetary co-operation in Europe, which had been so successfully built up during the eight and a half years of the E.P.U., has thus been maintained and strengthened.

IX. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1959, 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.

First section of the balance sheet.

The total of the first section of the balance sheet as at 31st March 1959 amounted to 3,528,243,451 gold francs, against 2,232,349,461 gold francs on 31st March 1958.

B.I.S.: Annual balance-sheet totals
(first section).

Financial years	Total at end of year	Difference
	in millions of gold francs	
1954-55	1,718	—
1955-56	1,757	+ 39
1956-57	2,181	+ 424
1957-58	2,232	+ 51
1958-59	3,528	+ 1,296

The accompanying table shows the development of these figures during the past five financial years.

As pointed out in Note 1 at the foot of the monthly statements of account, the following items are not included therein: gold under earmark, bills and other securities held in custody for the account of central banks and other depositors; the assets (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 Monetary Agreement), as Depository 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 government loans.

As was done in the case of the balance sheet as at 31st March 1958, 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.

The total of the first part of the Bank's monthly statement of account showed a continuous increase from 31st March 1958 to 28th February 1959, rising during this period from 2,232.3 to 3,797.3 million gold francs, the highest figure attained since the foundation of the Bank. On 31st March 1959, at 3,528.2 million, the total was slightly lower.

B. I. S.: Memorandum accounts (b).

Items	31st March 1958	31st March 1959
	in millions of gold francs	
Earmarked gold	538.5	457.5
Bank balances	47.2	28.3
Bills and other securities	1,088.7	918.6
Total of items not included in the balance sheet	1,674.4	1,404.4

At the end of November 1958 this figure rose above 3 milliard gold francs for the first time, reaching the level of 3,096.4 million. The largest monthly increase — of 436.3 million — took place in December, bringing the total of the statement of account up to 3,532.7 million at the end of 1958. This increase was in fact mainly due to the entering in the Bank's books of a credit facility made available to a central bank. The operation in question matured in March, thus causing the decline in the total of the statement of account which occurred in that month.

COMPOSITION OF RESOURCES (liabilities).

A. Own funds.

The Bank's Share Capital remained unchanged at 500,000,000 gold francs, of which 125,000,000 gold francs was paid up.

The Reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 21.7 million gold francs on 31st March 1958 to 22.1 million on 31st March 1959. 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 1959 and the balance brought forward from the preceding year, amounted to 17.3 million gold francs on 31st March 1959, against 15.7 million a year earlier. The amount of the item Provision for contingencies rose from 143.5 million gold francs on 31st March 1958 to 156.5 million on 31st March 1959. For the item Miscellaneous the figure was 17.0 million gold francs at the beginning of the financial year and 19.2 million at the end.

Thus, at the end of March 1959 the Bank's own funds amounted to 340 million gold francs, i.e. about 10 per cent. of the total of the balance sheet on the same date and almost 11 per cent. of the total of deposits (3,188 million gold francs).

Financial years ended	Own funds	Deposits	Total
	in millions of gold francs		
31st March 1955	286	1,432	1,718
" " 1956	294	1,463	1,757
" " 1957	305	1,876	2,181
" " 1958	323	1,909	2,232
" " 1959	340	3,188	3,528

The table on the previous page compares the development of these two headings during the last five financial years.

B. Deposits.

The following brief analysis of the deposits received by the Bank shows their origin, nature and term.

1. Origin.

Origin	31st March 1957	31st March 1958	31st March 1959	Difference from 31st March 1958 to 31st March 1959
	in millions of gold francs			
Central banks	1,541.9	1,411.9	2,573.2	+ 1,161.3
Other depositors	334.3	497.6	615.0	+ 117.4
Total	1,876.2	1,909.5	3,188.2	+ 1,278.7

It appears from the above comparison that the rise in the balance sheet during the financial year 1958-59 was due almost entirely to the increase in the deposits entrusted to the Bank by central banks.

2. Nature.

Nature	31st March 1957	31st March 1958	31st March 1959	Difference from 31st March 1958 to 31st March 1959
	in millions of gold francs			
Gold	626.8	554.0	1,439.7	+ 885.7
Currencies	1,249.4	1,355.5	1,748.5	+ 393.0
Total	1,876.2	1,909.5	3,188.2	+ 1,278.7

In the course of the financial year deposits in a weight of gold rose by 885.7 million gold francs, or 160 per cent., compared with the figure for 31st March 1958, while deposits in currencies rose by 393 million, or 29 per cent.

If account is taken of swaps against currencies, the actual increase in deposits in a weight of gold is found to have been 1,073.7 million gold francs and that in currency deposits 205.0 million.

3. Term.

The distribution of the deposits expressed in a weight of gold and in currencies is shown, according to term, in the table on the following page.

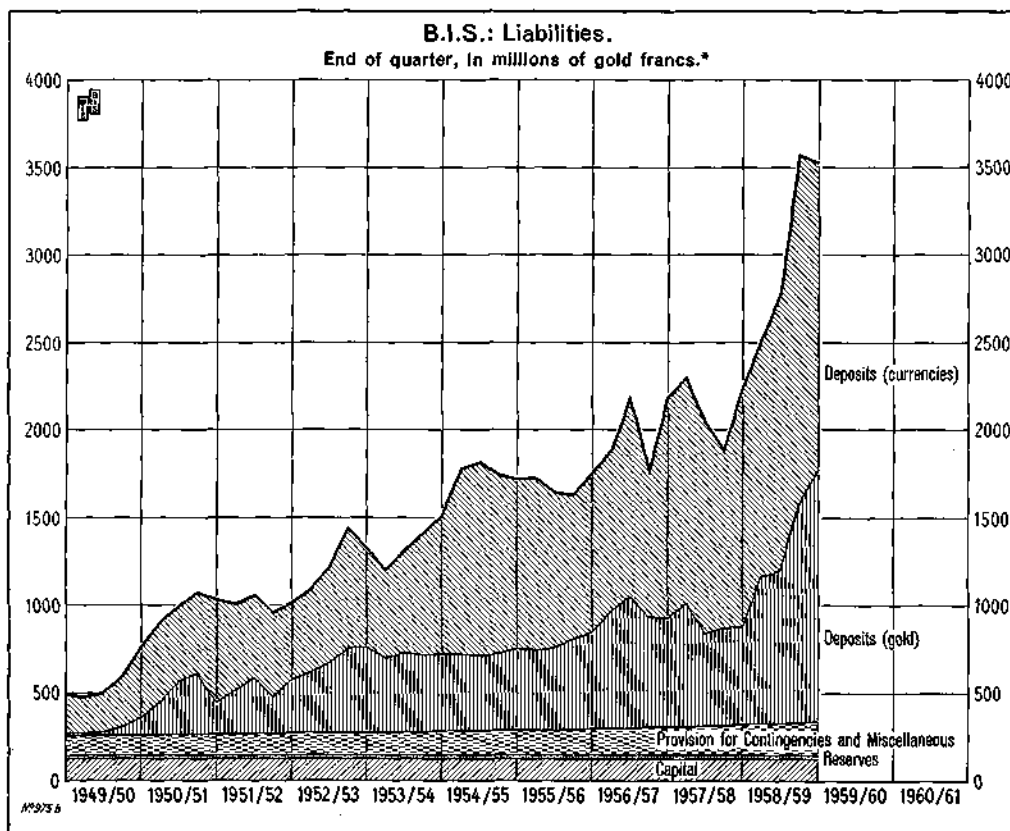
Sight — Sight deposits in currencies declined slightly; in contrast, the increase in sight deposits in gold accounted for more than three-quarters of the rise in the total of gold deposits, which was considerable, as was pointed out above. On 31st March 1959 sight deposits in gold represented almost half the total of gold deposits received.

B.I.S.: Deposits in gold and currencies
(central banks and other depositors).

Periods	Deposits in gold			Deposits in currencies		
	31st March 1958	31st March 1959	Difference	31st March 1958	31st March 1959	Difference
	in millions of gold francs					
At sight	21.3	713.5	+ 692.2	71.6	61.5	- 10.1
At not exceeding 3 months	406.1	601.0	+ 194.9	947.3	1,179.8	+ 232.5
Between 3 and 6 months	126.6	125.2	- 1.4	204.2	383.4	+ 179.2
Between 6 and 9 months	—	—	—	95.0	15.4	- 79.6
Between 9 and 12 months	—	—	—	1.4	1.4	—
Over 1 year	—	—	—	36.0	107.0	+ 71.0
Total	554.0	1,439.7	+ 885.7	1,365.8	1,748.5	+ 393.0

Time — The development of time deposits was very different. It is true that there was in this case, too, a fairly large rise in deposits received in gold. But there was a greater increase in deposits in currencies at not exceeding three months and at between three and six months, which rose by more than 400 million gold francs.

The decline in deposits at between six and nine months was almost compensated by a rise in those at over one year, the total of which has become fairly large.



* Not including liabilities connected with the execution of the Hague Agreements.

Both these developments are particularly advantageous for the Bank. For time deposits enable it to meet requests for temporary assistance made by its correspondents and to diversify its operations on the markets.

EMPLOYMENT OF RESOURCES (assets).

A. Nature.

The distribution of the resources between gold and currencies has already been discussed. The corresponding assets are here distinguished in the same way. Both the principle of spreading the risk, on the one hand, and the international character of the Bank, on the other, lead it to distribute its assets (gold and currencies) over a wide geographical area and between various kinds of investments.

B.I.S.: Total cash and investments.

Nature	31st March 1958	31st March 1959	Difference
	in millions of gold francs		
Gold	634.9	1,302.5	+ 667.6
Currencies	1,527.9	2,156.2	+ 628.4
Total	2,162.7	3,458.7	+ 1,296.0

The distribution of the Bank's cash holdings between gold and currencies was as follows.

B.I.S.: Cash.

Nature	31st March 1958	31st March 1959	Difference
	in millions of gold francs		
Gold	558.3	1,158.4	+ 600.1
Currencies	76.9	70.8	- 6.1
Total	635.2	1,229.2	+ 594.0

This shows that a large part of the gold on deposit was kept in bullion in order to finance the Bank's gold operations (purchases and sales, spot and forward transactions, transfers, exchanges, credits, etc.)

B.I.S.: Investments.

Nature	31st March 1958	31st March 1959	Difference
	in millions of gold francs		
Gold	76.6	144.1	+ 67.5
Currencies	1,450.9	2,085.4	+ 634.5
Total	1,527.5	2,229.5	+ 702.0

Investments in gold reached their highest level for the financial year — 177.7 million gold francs — on 31st August 1958, and were at their lowest on 31st March 1958. The level of investments in currencies was also lowest

at the beginning of the financial year; the highest figure — 2,510.7 million — was attained on 28th February 1959.

It has been seen that deposits expressed in a weight of gold rose by 886 million gold francs. Thus the increase in the corresponding items of the assets was a little less, the movements of the latter also depending on the development of forward operations, whether in the form of purchases or sales or in that of swaps or options. The total of these transactions rose considerably in the course of the financial year.

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.

This table brings out the growing importance of forward gold operations. Thus, while forward purchases of gold stood at 388 million gold francs on 31st March 1958 and forward sales at 214 million (giving the balance of 174 million shown in the table), on 30th November, for example, they totalled 840 and 294 million respectively (giving a balance of 546 million) and at the end of the financial year they amounted to 765 and 346 million (giving a balance of 419 million).

With two exceptions (at the beginning of the financial year and at the end of May 1958 — when, however, the difference was very small) the figure for the Bank's gold assets in bars and coins was constantly lower than the total of deposits received in a weight of gold. On the other hand, if account is taken of the gold investments and of the balance of forward operations in gold, the total of the Bank's net gold assets remained practically the same as the amount of its own available funds.

B. Term.

I. Assets on demand.

Under this heading are grouped Cash (gold and currencies) and Sight investments, i.e. the Rediscountable portfolio and Bills cashable on demand.

Cash — On 31st March 1959 total gold and currency holdings represented 34.8 per cent., or more than one-third, of the total of the first part of the Bank's balance sheet, against 28.4 per cent. a year earlier.

(a) The total of the item Gold in bars and coins (in fact it consisted at the end of the financial year entirely of gold in bars) amounted to 558.3 million gold francs in the balance sheet as at 31st March 1958. It reached its lowest level — 509.9 million — on 31st July. Thereafter an almost continuous increase brought the figure to 1,158.4 million — the highest level of the year — on 31st March 1959. This item thus rose altogether by 600.1 million gold francs.

B.I.S.: Gold position.

End of month	Spot position				Forward operations (net balance)	Final net gold position
	Gold in bars and coins	Credits and other assets in gold	Deposits in a weight of gold	Net gold assets		
in millions of gold francs						
1958						
March . . .	558	77 (min.)	— 554 (min.)	81	+ 174	255
May	776	111	— 762	125 (max.)	+ 135 (min.)	260
July	510 (min.)	162	— 783	— 111	+ 362	251 (min.)
August . . .	524	178 (max.)	— 817	— 115	+ 374	259
November . .	730	85	— 1,093	— 278 (min.)	+ 546 (max.)	268
December . .	1,037	85	— 1,249	— 127	+ 412	285 (max.)
1959						
March	1,158 (max.)	144	— 1,440 (max.)	— 138	+ 419	281

(b) The item Cash in hand and on sight account with banks underwent no marked changes. At the end of March 1958 it stood at 76.9 million gold francs; it reached its lowest level on 31st August, at 50.3 million, and its highest point on 31st December, at 80.5 million. At the end of the financial year it amounted to 70.9 million gold francs.

The average level of this item during the financial year 1958-59 was about 60 million gold francs, against 56 million during the previous year, a normal increase in view of the large rise in the balance-sheet total.

On 31st March 1959 83 per cent. of the Bank's currency holdings consisted of dollars and 16 per cent. of Swiss francs. The corresponding figures as at 31st March 1958 were respectively 85 per cent. and 11 per cent.

Sight investments — (a) There were considerable fluctuations in the total of the Rediscountable portfolio during the financial year, as is shown in the following table, which gives the maximum and minimum figures for the items Commercial bills and bankers' acceptances and Treasury bills.

The Bank's holdings of bankers' acceptances — all of them dollar acceptances — were progressively reduced to a very low level. As far as its holdings of Treasury bills are concerned, on 31st March 1959 98 per cent. of these consisted of bills of the U.S. Treasury.

B.I.S.: Rediscountable portfolio.

End of month	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of gold francs		
1958			
March	167.6	392.1	559.7
April	168.5 (max.)	229.5	398.0
May	83.8	207.3 (min.)	291.1 (min.)
1959			
January	31.7	1,030.4 (max.)	1,062.1 (max.)
March	22.2 (min.)	823.7	845.9

(b) The item Sundry bills cashable on demand, which is fairly small, fluctuated only within narrow limits. It stood at 30.4 million gold francs at the beginning of the financial year and attained its highest level — 30.7 million — on 30th April. Its lowest point — 18.7 million — was reached on 30th September. On 31st March 1959 it stood at 22.9 million and consisted entirely of bills expressed in dollars.

The total of the Bank's gold, cash and rediscountable investments, comprising the assets items so far analysed, was thus 1,225.4 million gold francs at the beginning of the financial year. It subsequently fell slightly to its lowest point — 1,084.5 million — on 31st July, but then rose again, reaching its highest level — 2,149.8 million — on 28th February 1959; at the end of the financial year it stood at 2,098.0 million.

This figure represented 59.4 per cent. of the total of the assets shown in the first part of the balance sheet, against 54.9 per cent. a year earlier. During this period the percentage of sight deposits rose from 4.2 to 22 per cent.

II. Time investments.

There were considerable changes in the item Time deposits and advances. On 31st March 1958 these had amounted to 303.2 million gold francs; they remained consistently above this level throughout the financial year, reaching their highest point — 801.8 million — on 28th February 1959 and falling again to 522.3 million at the end of the financial year. The Bank continued to place fairly substantial resources at the disposal of its correspondents. Furthermore, it spread its investments generally over a wider field, with the consent of the central banks concerned or even sometimes at their suggestion.

Since the Bank always seeks to maintain a balanced exchange position, most of these operations were booked in the form of swaps.

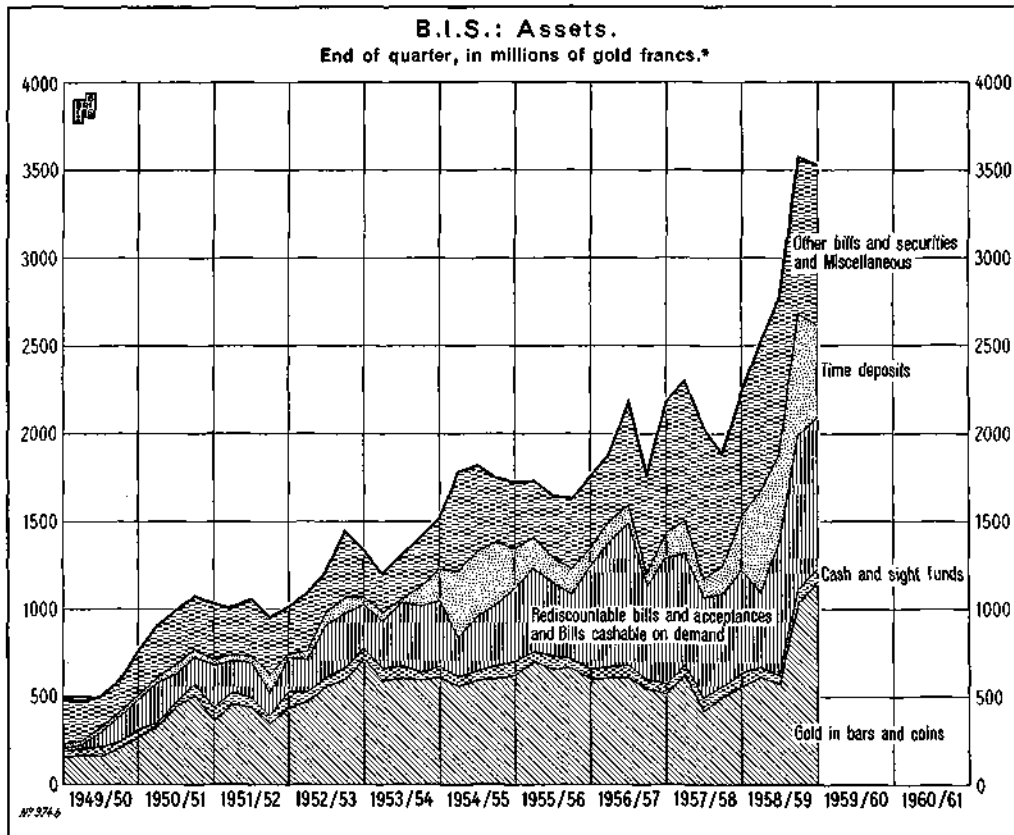
The figures for Other bills and securities on 31st March 1958 and 31st March 1959 — namely 634.2 and 838.4 million gold francs respectively — correspond to the lowest and highest levels reached by this item during the financial year. Between these two dates the fluctuations from one month to another were not very wide.

The following table compares the distribution of the total of time investments from the point of view of duration at the beginning and end of the financial year.

B.I.S.: Time deposits and advances and other bills and securities.

Periods	31st March 1958	31st March 1959	Difference
	in millions of gold francs		
At not exceeding 3 months	642.9	918.3	+ 275.5
Between 3 and 6 months	128.3	97.6	— 30.7
Between 6 and 9 months	38.2	39.5	+ 1.3
Between 9 and 12 months	81.2	106.9	+ 25.7
Over 1 year	46.9	198.4	+ 151.5
Total	937.4	1,360.7	+ 423.3

As may be seen, the increase occurred chiefly in investments at not exceeding three months, thus further strengthening the Bank's liquidity position. Whereas changes in investments at between three and twelve months almost completely offset each other, investments for periods of over one year — whose average currency period is generally not much longer than this — also showed a fairly marked expansion. These were, in fact, all investments in currencies (more than half the counterpart of which consisted of deposits, also expressed in currencies, for periods of over one year) and consisted of bills which, although not offering quite the same degree of liquidity as the afore-mentioned "Bills cashable on demand", can none the less be resold at any time on a wide market.



* First part of statement of account.

OPERATIONS: Volume — Comparisons.

The total volume of the Bank's operations during the financial year under review was smaller than that in the preceding year, when it was exceptionally large.

This development is the result of greater stability both in the Bank's available resources and in its investments. Furthermore, following the replacement of the European Payments Union by the European Monetary Agreement,

B.I.S.: Volume of operations.

Financial years	In millions of gold francs
1956-57	45,448
1957-58	59,170
1958-59	47,811

a substantial volume of operations at short term which had formerly resulted from the monthly settlements ceased to pass through the Bank's books. And finally, the return of most European currencies to a system of external convertibility deprived the Bank of a certain amount of business for which it had previously acted as an intermediary.

Gold operations.

i. Volume of operations — For the same reasons, the volume of the Bank's gold operations fell by about one-fifth in relation to the previous financial year, as is shown in the table below.

B.I.S.: Volume of gold operations.

Financial years	In millions of gold francs
1956-57	7,004
1957-58	10,848
1958-59	8,716

In this field forward operations have gradually become of greater significance than spot transactions, which tended during the year to be in one direction only, thus often limiting the Bank's possibilities of doing business.

2. Earmarked gold (not included in the balance sheet) was held in six different European centres (London, Paris, Berne, Basle, Amsterdam and Lisbon) and in two outside Europe (New York and Ottawa). Movements between these centres during the financial year were almost insignificant; the same was true of actual transfers of gold, which are being replaced to an increasing extent by exchanges.

Exchange transactions.

In contrast to what has been said above regarding the total volume of the Bank's operations and parallel with the growth in its forward gold operations, there was a continued increase in the volume of exchange transactions.

This rise occurred in both spot and forward exchange operations, as well as in swaps between currencies, which make it possible to maintain a balanced exchange position and to carry out — with the consent of the central banks concerned or even at their suggestion — arbitrage transactions, at times involving substantial sums, in the distribution of the Bank's investments on the various markets.

These short-term transfers — which are in keeping with the international character of the Bank — enable it not only to contribute towards a levelling-out of interest rates on the different markets but also to help the central banks responsible for the currencies in question in the policies of credit restriction or relaxation pursued by them at a given time.

The year's financial results are shown at the end of this Report. On the whole these results may be regarded as satisfactory in view of the

degree of liquidity which the Bank maintains on account of the responsibilities which are assigned to it. Moreover, the appreciable expansion in the amount and the lengthening of the term of the deposits placed at its disposal enable the Bank to perform these tasks more effectively. This is attributable to increasing co-operation with the central banks along the lines indicated by the founders of this institution and in the special field in which they intended it to operate.

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 the 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	\$	43,433,000	8,107,000
Belgian	£	567,600	153,400
British	£	7,861,300	2,122,600
Dutch	£	397,800	83,500
French	£	1,872,800	484,100
Swedish	S.Kr.	14,209,000	—
Swiss	£	1,108,100	112,900
Swiss	Sw.fcs.	8,193,000	409,000

German Government International Loan 1930
(Young Loan).

Issue	Currency	Conversion bonds*	Funding bonds*
American	\$	54,720,000	8,858,000
Belgian	B.fcs.	196,174,000	44,024,000
British	£	17,086,700	4,074,900
Dutch	Fl.	15,354,000	634,000
French	Fr.fcs.	44,225,000,000	9,740,100,000
German	DM	10,613,000	347,000
Swedish	S.Kr.	92,616,000	6,004,000
Swiss	Sw.fcs.	58,192,000	1,398,000

* The amounts have been calculated on the basis of the adjusted nominal values prevailing on 15th May 1959.

The validation and exchange of the old bonds may now be regarded as completed, except in the case of the German and Dutch 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 amounts for the interest service of the loans, equivalent altogether to about 16.8 million gold francs for the Dawes Loan and about 38.7 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 began in the course of 1958 in respect of both the Dawes Loan and the Young Loan. The redemption obligation for the financial year 1958-59 was met, in the case of both loans, by purchases of bonds; there will therefore be no drawings by lot in 1959.

In the case of the Austrian Government International Loan 1930 the total amounts of the assented bonds of the American, Anglo-Dutch and Swiss issues are approximately \$1,672,000, £1,014,000 and Sw.fcs. 7,101,000 respectively.

The assenting of the old bonds may now be regarded as completed in the case of the Anglo-Dutch and Swiss issues. The time-limit for the American issue will expire on 31st December 1960, as the offer of settlement was not published until 1957.

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 1.8 million gold francs in respect of the interest service on the assented bonds. The Bank, as Trustee, has also received the first monthly instalments due in respect of the sinking fund.

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 amounted altogether, during the year under review, to the equivalent of about 0.4 million gold francs (4.1 million gold francs 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 Depositary under the terms of the Act of Pledge concluded with the High Authority of the European Coal and Steel Community.

In June 1958 the High Authority of the European Coal and Steel Community issued a further loan in the United States, consisting of a medium-term tranche of \$15 million in the form of 4½ per cent. notes repayable in three, four and five years and a long-term tranche of \$35 million in the form of 5 per cent. bonds repayable in twenty years. In consequence the total amount of the loans contracted by the High Authority reached a figure equivalent

to about 660 million gold francs, of which about 11 million gold francs had been redeemed up to 31st March 1959. Particulars of these loans are given below.

Series of Secured Notes of the High Authority	Date of issue	Country of issue	Lender	Amount of loan	Amount of loan unredeemed	Rate of interest %	Period of loan (years)
1st	1954	United States	U.S. Government	\$ 100,000,000	97,100,000	3%	25
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fcs. 200,000,000	195,000,000	3½	27
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	23,835,000	3%	26
			Landesbank für Westfalen (Girozentrale), Münster	DM 25,000,000	23,835,000	3%	26
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fcs. 20,000,000 Lux.fcs. 5,000,000	19,500,000 4,875,000	3½	27
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	Fr.fcs. 350,000,000	339,150,000	4%	21
6th	1956	Switzerland	Public issue	Sw.fcs. 50,000,000	50,000,000	4%	18
7th			Public issue	\$ 25,000,000	25,000,000	5½	18
8th	1957	United States	Public issue	\$ 7,000,000	7,000,000	5	3-5
9th			Bank loans	\$ 3,000,000	3,000,000	5	3-5
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	Lux.fcs. 100,000,000	100,000,000	5%	25
11th	1956	United States	Public issue	\$ 35,000,000	35,000,000	5	20
12th			Public issue	\$ 15,000,000	15,000,000	4%	3-5

With the exception of a small sum which has been invested at short term, the proceeds of these loans have been used by the High Authority to grant credits to companies in the member countries of the European Coal and Steel Community.

As stated in preceding Annual Reports, the Bank for International Settlements performs, in respect of these operations, the function of Depository, 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 and hold in custody the securities constituting the common pledge for the benefit of all present and future lenders to the High Authority.

During the year under review the Bank for International Settlements received and paid out the equivalent of about 27 million gold francs in respect of interest and commission. The sums received and paid out in respect of redemption during the same period amounted to the equivalent of about 10 million gold francs.

4. The Bank as Agent for the Organisation for European Economic Co-operation (European Payments Union and European Monetary Agreement).

The formation and working of the European Payments Union have been described in previous Annual Reports of the Bank; a description is given in Chapter VIII of the present Report of the last months' operations of the European Payments Union, its termination and its liquidation, together with an account of the coming into operation of the European Monetary Agreement.

The Bank continued to act as Agent for the Organisation for European Economic Co-operation in respect of the operations of the European Payments Union under the arrangements previously made, and undertook the function of Agent for the purposes of the European Monetary Agreement as arranged with the Organisation at the time that Agreement was signed in 1955.

The expenses of the Bank as Agent for the Organisation amounted to 571,835 gold francs in the twelve months to March 1959; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1959).

5. Financial results.

The accounts for the twenty-ninth financial year ended 31st March 1959 showed a surplus, before providing for contingencies, of 22,550,894 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 19,317,738 gold francs.

The net amount of interest, discount and commission earned was again higher 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.

For the purpose of the Balance Sheet as at 31st March 1959, 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 1959, the Board of Directors has decided that, having regard to the increase in the total of the Balance Sheet, it is necessary to transfer 13 million gold francs to the provision for contingencies. This provision is thereby raised to 156,500,000 gold francs.

The Net Profit for the year, after deducting the above transfer, thus amounts to 9,550,894 gold francs. After providing 5 per cent. for the Legal

Reserve Fund as required by the Statutes, i.e. 477,545 gold francs, and with the addition of the balance of 7,706,579 gold francs brought forward from the previous year, there is a sum of 16,779,928 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 9,279,928 gold francs. The proposed dividend of 37.50 gold francs per share corresponds to 6 per cent. on the paid-up capital and is the same as that distributed last year.

The accounts of the Bank and its twenty-ninth Annual Balance Sheet have been duly audited by Messrs. Price Waterhouse & Co., Zurich. 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.

On 1st July 1958 Dr. M. W. Holtrop, President of the Nederlandsche Bank, assumed office in succession to M. Maurice Frère as Chairman of the Board of Directors and President of the Bank, to which he had been formally appointed by the Board at its meeting held on 12th May 1958.

At the Board meeting held on 10th November 1958 Sir Otto Niemeyer was re-elected Vice-Chairman of the Board for a further period of three years, with effect from 9th December 1958.

The mandates of Herr Blessing and Dr. Brinckmann being due to expire on 31st March and 31st May 1959 respectively, they were re-elected to the Board by the ex officio Directors at the meeting held on 8th March 1959; these appointments were made under Article 28(2), paragraph 3, of the Statutes for periods of three years.

The term of office of Dr. Walter Schwegler, President of the Direktorium of the Swiss National Bank, was due to expire on 31st March 1959 and he was re-elected to the Board under Article 28(3) of the Statutes for a period of three years, expiring on 31st March 1962, at the meeting of the Board held on 9th March 1959.

In March 1959 M. Baumgartner, Governor of the Bank of France, formally appointed M. Julien Koszul as his Alternate in place of M. Jean Bolgert.

M. Roger Auboin, General Manager of the Bank and Alternate of the President, retired from the Bank's service on 30th September 1958. At the Board meeting held on 22nd September 1958 the Chairman and the other members of the Board paid a warm tribute to M. Auboin for the outstanding services he had rendered to the Bank during his twenty years of office, especially for the part he had played in re-establishing the standing of the Bank in the difficult early post-war years and in developing its business to such a remarkable extent.

M. Auboin was succeeded as General Manager on 1st October 1958 by M. Guillaume Guindey, who had been formally appointed by the Board to this office at its meeting held on 11th November 1957.

Mr. Malcolm Parker, formerly Administrative Sub-Manager, was appointed Administrative Assistant Manager as from 1st January 1959.

The Bank suffered a great loss in the sudden death on 12th January 1959 of Dr. Sjoerd G. Binnerts, who had been in the service of the Bank as an Assistant Manager since December 1950, working at first in the Banking Department; from 1953 he had also taken charge of the Loan Service, a new section created within the General Secretariat, where his work was greatly valued. A tribute was paid to him by the Chairman at the Board meeting held on 9th February 1959.

Conclusion.

The review of economic developments in the past year contained in the present Report reveals considerable differences between Europe and the United States, and also within Europe itself. But this diversity should not be allowed to obscure the similarities which are brought out by an examination of trends over a longer period.

The economy of western Europe as a whole has reached a new phase of its post-war development — a phase in which most countries are faced with much the same problems and in which, furthermore, their problems do not differ very greatly from those confronting the United States and Canada.

During the years immediately following the war there was a marked contrast between the position of the United States and Canada, characterised by their balance-of-payments surpluses, the convertibility of their currencies and their possession of relatively ample productive capacity well able to satisfy most kinds of demand, and the position of Europe. Moreover, within western Europe there were still great dissimilarities from country to country resulting from the varying extent of the destruction and impoverishment caused by the war and from the sometimes widely divergent policies pursued.

Thus, in the effort to achieve economic expansion — which is the common aim of the various economic systems — there remained not only the fundamental differences of method between the western countries and those of the East, but also differences among the western countries themselves both in the allocation of resources and in the resultant pressures on prices and balances of payments.

Today, however, whereas the economic problems facing eastern Europe continue to present aspects peculiar to that region, even when the basic situations are similar to those elsewhere, the differences within western Europe, and between the latter and North America, are no longer significant.

The western European countries are now nearly all resolutely carrying out policies designed to do away with trade and foreign exchange restrictions. Most of them have expanded their productive capacity to such an extent that they have been able without great difficulty to allow a rise in the standard of living, in real terms, of 25-30 per cent. compared with before the war and are becoming an increasingly powerful economic force. Having for the most part put their foreign trade on a sound footing and replenished their monetary reserves, they are now less concerned about their balance-of-payments positions. Their chief preoccupation is to maintain a satisfactory rate of expansion without thereby running the risk of relapsing into inflation

— an evil which may have its origin in a more rapid increase in wages than is justified by the rise in productivity or in the recurrence of excessive deficits in the public finances.

These are exactly the same preoccupations as are at present exercising the minds of the authorities in the United States and Canada. North America is no longer worried by its balance-of-payments surpluses. It can no longer be accused of monopolising the gold reserves of the western world. It is, however, faced with the difficulty of keeping its prices competitive on the international markets despite the demands of the workers for too rapid wage increases and the desire of business men for easy profits. And it has also to contend with the difficulty of financing a budget deficit by non-inflationary methods without impairing private investment.

If to have the same problems is a sign of unity, it can be said that the community constituted by western Europe and North America has rarely been so united as it is today.

Looking more closely at the problems in the field of international economic and financial relations which confront both western Europe and North America, one finds that three points ought to be emphasised.

1. The freeing of international trade.

In their struggle to maintain price stability in the midst of expansion the countries of western Europe, in view of the liberal line which they have chosen to follow in their economic policies, cannot afford to shut their domestic markets off from foreign competition.

Quite apart from the obstacles constituted by customs tariffs, there still exist many administrative barriers to imports. Even if agricultural products are excluded, intra-European trade is far from having been entirely freed from quota limitations. Discriminatory quantitative restrictions which can no longer be justified by any monetary argument are still applied to goods from the dollar area.

It is essential that a fresh effort be made in this field. Apart from a few permissible exceptions, notably in the agricultural sector, administrative restrictions on imports should be very rapidly done away with.

Nor should the European countries allow this prime necessity to blind them to the importance of lowering customs barriers, for every reduction in duties is a further safeguard against price rises.

In America, too, a frank acceptance of foreign competition is probably an indispensable condition of expansion without inflation. Since the war the United States has realised the necessity of pursuing a liberal tariff policy in the interests of its debtors. The pursuit of such a policy is now more clearly

than ever in its own interests also. It would be deplorable if, under the influence of internal pressures, the United States were to resort to import restrictions or tariff increases. On the contrary, it should go ahead with the removal of administrative obstacles to foreign competition and embark resolutely on a course of tariff reduction.

2. Encouragement of international capital movements.

The high rate of saving which, generally speaking, western European countries have again achieved, together with the relative lessening of their investment needs which has accompanied the completion of their reconstruction programmes, ought now to enable them to play an increasing part as suppliers of capital to the rest of the world and especially to those countries and areas whose capacity to save is inadequate considering their requirements and the possibilities of economically sound investment which they offer. Indeed, some European countries traditionally apply a substantial proportion of their savings to provide aid to less-developed countries, and they did so even during the early post-war years in spite of the magnitude of their own unsatisfied needs.

In whatever forms capital may be supplied to less-developed regions (private investment, government assistance or aid by international organisations), it is only reasonable to expect that, henceforth, western Europe will participate more actively in this effort.

3. International payments system.

The remarkable growth of world trade which has taken place since the war has naturally necessitated an expansion in the supply of international means of payment. It would not appear that the present supply is inadequate, especially in view of the increase now being made in the resources of the International Monetary Fund.

The expansion of international liquidity has, however, been only partly brought about by the growth in the world's stock of monetary gold; considerable recourse has also been had to the use for reserve purposes of national currencies, principally the U.S. dollar and the pound sterling. Externally-held dollar and sterling balances now represent 26 and 16 per cent. respectively of the international means of payment in the hands of countries other than the U.S.S.R.

The fact that such a considerable proportion of the total volume of liquidity consists of liabilities of the United States and the United Kingdom implies that the working of the system of international payments depends at present to a large extent on the pursuit by these countries of economic and monetary policies aimed at maintaining the purchasing power of their monetary units, and so preserving confidence, both at home and abroad, in their currencies.

If in the future — as is greatly to be hoped — further expansions of trade take place, the volume of international monetary reserves may have to be adjusted to the increasing need of means of payment. The problem may then arise of deciding what will be the best ways of effecting such an adjustment. This is a technical problem which the monetary authorities will have to consider in good time.

It must always be borne in mind, however, that the *raison d'être* of international liquidity is to cover short-term balance-of-payments fluctuations and that to increase it can never be an alternative to sound domestic economic policies, which are the essential condition of any real external monetary equilibrium.

Respectfully submitted,

GUILLAUME GUINDEY

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1959

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	1,158,369,669	32.8
Cash on hand and on sight account with banks	70,853,703	2.0
Rediscountable bills and acceptances		
Commercial bills and bankers' acceptances	22,224,238	0.6
Treasury bills	<u>823,650,582</u>	23.3
	845,874,820	
Sundry bills cashable on demand	22,909,824	0.7
Time deposits and advances		
Not exceeding 3 months	504,313,208	14.3
Between 3 and 6 months	16,577,829	0.5
Between 6 and 9 months	<u>1,417,131</u>	0.0
	522,308,168	
Other bills and securities		
Gold		
Not exceeding 3 months	44,704,342	1.3
Between 3 and 6 months	61,699,433	1.8
Between 6 and 9 months	34,233,194	1.0
Between 9 and 12 months	3,457,522	0.1
Currencies		
Not exceeding 3 months	369,240,988	10.5
Between 3 and 6 months	19,318,142	0.6
Between 6 and 9 months	3,869,246	0.1
Between 9 and 12 months	103,437,677	2.9
Over 1 year	<u>198,445,344</u>	5.6
	838,405,888	
Miscellaneous assets	1,230,155	0.0
Buildings and equipment	1	0.0
Own funds employed in execution of the Hague Agreements of 1930 for investment in Germany (see below)	<u>68,291,223</u>	1.9
	<u>3,528,243,451</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)	418,428,498	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	457,489,019	
Bank balances	28,285,862	
Bills and other securities	918,637,284	

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, 5th May 1959.

AS AT 31st MARCH 1959

GRAMMES FINE GOLD — ART. 6 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	3.6
Reserves			
Legal Reserve Fund	8,786,100		
General Reserve Fund	13,342,650		
		22,128,750	0.6
Deposits (gold)			
Central Banks:			
Between 3 and 6 months	117,917,454		3.4
Not exceeding 3 months	561,274,999		15.9
Sight	588,397,899		16.7
Other depositors:			
Between 3 and 6 months	7,223,540		0.2
Not exceeding 3 months	39,722,370		1.1
Sight	125,125,278		3.6
		1,439,651,519	
Deposits (currencies)			
Central Banks:			
Over 1 year	107,019,547		3.0
Between 9 and 12 months	1,416,414		0.0
Between 6 and 9 months	15,454,752		0.4
Between 3 and 6 months	230,114,150		6.5
Not exceeding 3 months	911,808,913		25.8
Sight	40,074,916		1.1
Other depositors:			
Between 3 and 6 months	153,290,121		4.4
Not exceeding 3 months	268,251,506		7.6
Sight	21,409,045		0.6
		1,748,539,364	
Miscellaneous		19,166,345	0.6
Profit and Loss Account			
Balance brought forward from the financial year ended 31st March 1958	7,706,579		
Profit for the financial year ended 31st March 1959	9,550,894		
		17,257,473	0.5
Provision for contingencies		156,500,000	4.4
		<u>3,528,243,451</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 1966 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 1959, 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 1959

		<u>Gold francs</u>
Net income from the use of the Bank's own funds and the deposits entrusted to it		26,776,157
Commission earned as <i>Trustee</i> , etc.		<u>634,065</u>
		27,410,222
Costs of administration:		
Board of Directors — fees and travelling expenses ...	228,453	
Executives and staff — salaries, pension contributions and travelling expenses	4,352,517	
Rent, insurance, heating, electricity	35,012	
Renewals and repairs of buildings and equipment ...	73,834	
Consumable office supplies, books, publications, printing	329,872	
Telephone, telegraph and postage	158,367	
Experts fees (auditors, interpreters, economists, etc.)	54,835	
Cantonal taxation	35,279	
Miscellaneous	<u>162,894</u>	
	5,431,163	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (E.P.U./E.M.A.)	<u>571,835</u>	<u>4,859,328</u>
		22,550,894
The Board of Directors has decided that it is necessary to transfer to the provision for contingencies		<u>13,000,000</u>
NET PROFIT for the financial year ended 31st March 1959		9,550,894
Transfer to the Legal Reserve Fund — 5% of 9,550,894		<u>477,545</u>
		9,073,349
Balance brought forward from the preceding year		<u>7,706,579</u>
		16,779,928
Dividend of gold francs 37.50 per share, as recommended by the Board of Directors to the Annual General Meeting called for 8th June 1959		<u>7,500,000</u>
Balance carried forward		<u>9,279,928</u>

BOARD OF DIRECTORS

Dr. M. W. Holtrop, Amsterdam 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

The Rt. Hon. Cameron F. Cobbold, London

Henri Deroy, Paris

Maurice Frère, Brussels

Dr. Donato Menichella, Rome

Dr. W. Schwegler, Zurich

Prof. P. Stoppani, Rome

Per Åsbrink, Stockholm

Alternates

Pierre Calvet, Paris, or

Julien Koszul, Paris

Dr. Paride Formentini, Rome

J. M. Stevens, London, or

J. St. J. Rootham, London

Cecil de Strycker, Brussels

EXECUTIVE OFFICERS

Guillaume Guindey

General Manager

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

D. H. Macdonald

Assistant Manager

Georges Royot

Assistant Manager

Henri Guisan

Legal Adviser

Malcolm Parker

Administrative Assistant Manager

Dr. Antonio Rainoni

Research Sub-Manager

Jan Knap

Sub-Manager