

BANK FOR INTERNATIONAL SETTLEMENTS

THIRTIETH ANNUAL REPORT

1st APRIL 1959 — 31st MARCH 1960

BASLE

13th June 1960

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THIRTIETH ANNUAL REPORT
submitted to the
ANNUAL GENERAL MEETING
of the
BANK FOR INTERNATIONAL SETTLEMENTS
held in
Basle on 13th June 1960.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the thirtieth financial year, which began on 1st April 1959 and ended on 31st March 1960. Details of the results of the year's business operations are given in Chapter VIII, together with an analysis of the balance sheet as at 31st March 1960.

The accounts for the thirtieth financial year closed with a surplus of 29,064,716 gold francs, against 22,550,894 gold francs for the previous year. After deduction of 13,000,000 gold francs transferred to the provision for contingencies and of 750,000 gold francs transferred to the provision for exceptional costs of administration, the net profit amounted to 15,314,716 gold francs, compared with 9,550,894 gold francs for the preceding year.

The Board of Directors recommends that the present *General Meeting* should decide to distribute, as last year, a dividend of 37.50 gold francs per share. In view of the very favourable results of the past financial year, the Board also proposes that, as an exceptional measure, a lump sum of 8.5 million gold francs should be applied this year to the reduction of the amount of the undeclared cumulative dividend. This sum will represent an extraordinary distribution of 42.50 gold francs per share. The total distribution will thus amount this year to 80 gold francs, payable in Swiss francs in the amount of 114.30 Swiss francs per share.

Chapter I of this Report gives a general survey of monetary and economic developments in 1959 and the early months of 1960. The succeeding chapters review the formation and use of the national product 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, world

trade and payments, gold production and monetary reserves, and foreign exchange rates and regulations. Chapter VII deals with the initial period of operations of the European Monetary Agreement. Chapter VIII describes the current activities of the Bank; it also gives an account of the financial results of the year and 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.

The economic scene in the industrialised countries of the West presented in many respects an unusually favourable picture in 1959. The rate of expansion of the national economies was almost everywhere higher than it had been in 1958, and in quite a number of countries even higher than the average for the years 1955-58; national price levels showed only small increases, in spite of boom conditions in most countries; and no European country experienced balance-of-payments difficulties. A weak spot in this picture — and one whose importance is all too often exaggerated — was the further deterioration in the U.S. balance-of-payments position, which, however, showed signs of improving again in the last quarter of 1959 and the first quarter of 1960.

Although economic progress in the past year was thus, on the whole, smooth and harmonious, there were some signs in the first months of 1960 that pointed to a somewhat more troublesome future. In Europe the acceleration of the boom, coupled with the announcement in some countries of large wage claims in 1960, aroused fears of inflationary price movements; therefore, towards the end of 1959 and during the early months of 1960, the monetary authorities in many countries took steps to prevent the upswing from becoming excessive. In 1958 their task had been to overcome the lull in economic activity and to get the economies into higher gear again; and in 1959 this was in fact achieved. But in 1960 a battle which has been repeatedly waged in the past is likely to have to be fought over again — the battle against inflationary tendencies, which must be conducted without abandoning in the process the attempt to maintain a satisfactory rate of expansion. In the United States expansion seemed to have come to a halt in the early months of 1960, and it is not yet clear whether the lull is of a temporary nature or not.

Whereas the upswing in economic activity had started in the United States in April 1958, the lull in most European economies lasted until the end of that year; but at the beginning of 1959 a revival set in, producing a rate of increase in the gross national products which, in the case of seven out of the twelve western countries shown in the table, equalled or exceeded the average for the period 1955-58, although it fell short almost everywhere of the very large expansion which took place in 1955. If a comparison is made for industrial production alone between the last quarter of 1958 and the corresponding quarter of 1959, the progress achieved in the latter year appears still more impressive: not only was the rate of increase everywhere substantially higher than the average for the years 1955-58 but in five out of eleven countries it also exceeded the rate of expansion in 1955. The fact that the figures for the United States seem to give a different result is due to the steel strike and its repercussions. For the period from the

second quarter of 1958 to the corresponding quarter of 1959 the rate of increase in industrial production was no less than 21.7 per cent., compared with 13.6 per cent. during 1955. The belief which had so often been expressed in official and unofficial documents that the countries of the western world were unlikely to repeat their past performance seems to have proved unfounded. For reasons to be given presently, however, the development in 1959 was exceptionally favourable; it would therefore not be reasonable to project into the future, without qualification, the rate of growth attained in that year.

Increases in gross national product and industrial production.

Countries	Gross national product (at constant prices)			Industrial production ¹		
	1955	1959	1955-58 average	1955	1959	1955-58 average
	in percentages					
Austria	11.0	3.8	6.3	13.5	8.9	5.7
Belgium	3.3	1.5	2.3	10.3	9.2	1.2
France	6.0	2.1	4.7	9.7	11.1	7.6
Germany (Fed. Rep.) . .	11.5	5.7	6.7	13.6	10.7	6.9
Italy	6.7	6.6	5.4	7.2	15.2	6.7
Netherlands	9.3	5.2	4.2	4.5	9.6	2.6
Norway	2.3	3.8	2.7	7.5	5.3	3.5
Sweden	4.1	4.6	2.9	4.3	7.9	2.4
Switzerland	6.2	5.0	4.4	—	—	—
United Kingdom	3.0	3.2	1.6	5.1	9.4	0.9
Canada	8.6	3.5	4.4	10.8	8.4	3.5
United States	8.2	6.8	2.5	14.2	6.1 ²	3.3
Japan	9.3	13.0	7.8	11.8	30.8	11.8
Czechoslovakia ³	10.6	5	8.0	10.9	10.9	10.4
Eastern Germany ³	8.2	(8)	7.6	7.7	12.0	8.2
Poland ³	8.9	5	8.7	11.4	9.0	10.0
U.S.S.R. ³	11.9	8	9.6	12.4	11.0	10.8
Yugoslavia	11.0	18	8.6	16.5	13.3	13.5

¹ Last quarter to last quarter, except in the case of the eastern countries, where percentage changes represent year-to-year increases. ² From the second quarter of 1958 to the second quarter of 1959, i.e. before the steel strike, the rate of expansion was 21.7 per cent. ³ In the case of the eastern countries the figures in the first three columns refer to national income, not to gross national product.

The figures given in the table for the eastern European countries (including the Soviet Union) refer to national income rather than gross national product. But if it is assumed that the relative changes in the gross national product and national income are — in the shorter run — approximately the same, it can be seen from the table that among the eastern countries the U.S.S.R., Yugoslavia and eastern Germany displayed a higher rate of growth in 1959 in terms of gross national product or national income than any of the western countries, while that in Poland and Czechoslovakia was lower than that in the United States. In industrial production alone the progress made in 1959 by a great many of the western countries was as rapid as that achieved by the Soviet Union or any of the other eastern countries between 1958 and 1959 on an annual basis. The two fundamental differences

between the two groups seem to be: firstly, that the average progress in the last few years, measured in terms of national income, has been greater in eastern Europe than in the West, while Japan, with an average rate of growth between 1955 and 1958 of about 8 per cent. in gross national product and 12 per cent. in industrial production, compares favourably with the eastern European countries; and secondly, that for three out of the five eastern European countries the growth rates in 1959 are below the average rates for 1955-58, while the reverse is true for eight out of the thirteen western countries (including Japan) shown in the table. Indeed, further investigations over a longer period show that the growth rates in most of the eastern European countries have a falling trend (see Chapter II).

The growth of national output depends on the increase in the employed labour force, on the number of hours worked, on the amount of capital investment per employed person, on technological progress and, especially when the economy is emerging from a period of stagnation, on the better utilisation of existing productive facilities. The last three factors together make for an increase in productivity per man.

As is shown by the following table, in 1959 employment in the countries in question rose much less than the gross national product, so that only part of the increase can be accounted for by the growth in employment. The remainder must be imputed to a rise in productivity per man — and this did in fact increase at a rate exceeding that in the preceding years. The growth in productivity was mainly due to the investments which had been made in the past. It would appear that net investment per head of the employed labour force had been positive for several years, which meant a further increase in the capital intensity of the productive process; and this, together with the continuous technical progress, created the necessary conditions for a rise in productivity. But since production had increased relatively little in western Europe in 1958 and had actually declined in the United States up to April 1958, the benefit of these investments was reaped by Europe mainly in 1959 and by the United States mainly in the period from May 1958 onwards, so that the rise in productivity during these periods was greater than it would have been if the effects of these investments had been evenly distributed over the years. This fact, together with the more intensive utilisation of the employed labour force during the upswing, explains

Changes in gross national product, employment and productivity.

Countries	Gross national product (at constant prices)			Employment			Productivity per man-year		
	1957	1958	1959	1957	1958	1959	1957	1958	1959
	in percentages								
France	+6.1	+1.3	+2.1	+0.5	+0.6	+0.0	+5.6	+0.7	+2.1
Germany	+5.4	+2.8	+5.7	+2.3	+0.9	+1.6	+3.1	+1.9	+4.1
United Kingdom	+1.4	+0.1	+3.2	+0.4	-0.7	+0.1	+1.0	+0.7	+3.1
United States	+1.8	-2.3	+6.8	+0.5	-1.6	+2.5	+1.4	-0.7	+4.1

why in most countries productivity rose more in 1959 than in the preceding two years and why the rate of increase in national output exceeded the average for these years.

It is hardly necessary to add that the data for productivity are very rough. It would be wrong, therefore, to attach too much importance to the figures as such; but the general tendency they display is borne out by more precise calculations which have been made with regard to industry as a whole or certain branches thereof in some of the countries concerned; and it is the general tendency that matters in this connection.

Conditions in western Europe at the beginning of 1959 and in the United States early in the spring of 1958 were thus very favourable for a rapid expansion in output. For this to materialise, however, a stimulus was required on the demand side. This stimulus came from different quarters in different countries. Among the various expenditure categories, inventory accumulation does not seem to have been an initial cause of the upswing, although it became an important factor once the upswing was under way. In the United States the liquidation of inventories continued until the third quarter of 1958, while production had begun to climb in May of that year. Once inventory accumulation had started, however, it contributed substantially to a rise in effective demand. In spite of the temporary liquidation of inventories in the third quarter of 1959 — a consequence of the steel strike — there was an increase of almost \$5 milliard in that year, as against a decline of roughly \$4 milliard in 1958, so that nearly \$9 milliard was contributed to effective demand compared with the previous year. Inventory accumulation in the United Kingdom was also negligible in the first half of 1959 and only gathered momentum in the second half, due allowance being made for seasonal swings. In Germany, too, inventory accumulation in the first two quarters of 1959 was below the average for the preceding year and it was only in the second half of that year that the situation was reversed.

Nor was private investment in plant and equipment a primary cause of the upswing in most countries. This type of investment developed late and in a few countries rose, even over the year as a whole, relatively less than total effective demand. In the United States it did not pick up until the last quarter of 1958. In the United Kingdom, after the decline which occurred in the first quarter of 1959, it rose slightly, but in the last quarter of that year it was still below the level of the corresponding quarter of 1958. In Germany, too, private investment in plant and equipment, which had increased throughout 1958, fell off somewhat early in 1959 and did not rise above the level it had reached in the last quarter of 1958 until the third quarter.

In most of the countries in which investment in inventories, plant and equipment got off to a late start the rise in private consumption was a major cause of the upswing. This was true of the United States, the United Kingdom, Italy and a few other countries. A variety of other factors contributed in the

early stages, though in varying degrees, to an increase in effective demand: house-building in Germany, and exports in Italy, France, Germany and the Netherlands; and in almost all countries increased public expenditure also played an important part. (For figures on the components of the gross national product see Chapter II.)

What has been said about the initial causes of the upswing is not invalidated by the fact that, taking 1959 as a whole, the rate of growth of private investment in inventories, plant and equipment was in most countries higher than that of total effective demand. An increase in demand on the part of domestic private consumers and public authorities or of foreign customers tends to lead to a faster rise in investments, once these begin to be affected, and this process in turn feeds consumer demand and thus contributes to the cumulative upward movement.

Public policy in most countries strongly influenced these favourable developments. The most important and most direct influence was exercised by the increase in public consumption, which in a number of countries exceeded, in relative terms, the rate of growth of total expenditure. But, quite apart from their direct contributions, the policy of the public authorities helped to swell some of the other expenditure streams. The most outstanding example is that of the United Kingdom, where the removal of hire-purchase

Changes in the gross national product and its components, at current prices.

Countries	Years	Consumption		Total investment (gross)	Exports of goods and services	Imports of goods and services (Increase -)	Gross national product
		Private	Public				
in percentages							
Austria	1958	4.9	5.2	- 2.1	- 1.2	4.0	4.0
	1959	6.4	5.5	7.5	2.3	- 9.7	6.2
Belgium	1958	- 1.7	6.7	- 7.7	- 2.5	7.9	- 0.2
	1959	1.9	5.0	3.8	3.7	- 5.1	2.2
Denmark	1958	4.2	9.1	- 3.7	3.7	1.5	4.4
	1959	10.5	5.4	19.5	7.6	- 15.4	9.6
Finland	1958	2.0	9.8	5.1	13.0	- 2.7	6.2
	1959	7.3	6.9	10.3	7.7	- 14.0	6.9
France	1958	12.4	8.2	15.5	17.4	- 8.8	13.6
	1959	8.3	10.8	0.6	19.4	- 2.9	9.4
Germany	1958	7.3	10.5	2.1	4.7	- 4.3	6.4
	1959	6.0	10.8	10.5	11.5	- 13.7	7.5
Italy	1958	3.8	13.1	1.6	4.0	8.7	6.4
	1959	4.1	8.0	7.0	11.2	- 4.1	6.2
Netherlands	1958	2.7	- 1.3	- 15.5	0.8	10.7	3.0
	1959	4.3	0.6	11.7	9.8	- 9.3	6.0
Norway	1958	3.3	5.6	6.7	- 9.5	0.6	1.0
	1959	5.6	9.4	0.4	5.6	- 1.7	5.7
Sweden	1958	6.4	8.4	- 0.2	- 4.0	2.5	4.2
	1959	4.1	9.2	4.3	4.0	- 0.4	5.6
Switzerland	1958	1.8	2.6	- 5.8	1.3	9.8	3.7
	1959	.	.	.	.	.	4.5
United Kingdom	1958	5.1	3.5	- 1.0	- 2.5	5.0	4.3
	1959	4.0	6.4	5.6	1.0	- 5.1	3.7
United States	1958	2.9	7.4	- 17.6	- 13.7	0.0	- 0.2
	1959	6.3	5.4	29.5	0.9	- 10.8	8.6

restrictions and later the budgetary measures of April 1959 gave a strong stimulus to consumption. Other examples could also be cited. In Germany the central bank's policy, which had been directed for quite some time towards a lowering of the long-term interest rate, undoubtedly had a favourable effect on house-building and private fixed investment. In France the stabilisation programme inaugurated at the end of 1958 was the cause of the improvement in exports that helped to counteract tendencies which were still causing an overall decline in the rate of expansion during most of 1959. And in most countries the easy access to bank credit and the lower level of short and long-term interest rates permitted by the central banks during most of 1959 made their own contribution towards expansion. The main exception in this respect was the United States, where the level of interest rates was higher in 1959 than in 1958. The latter country, where the upswing had started so much earlier than in Europe, was already by the middle of 1959 in a situation which did not develop in most European countries until the last quarter of the year — one in which the monetary authorities had to put on the brakes in order to prevent the upswing from accelerating too fast and to check inflationary developments.

The growth in total effective demand during 1959 was fed in almost all countries by an increase in the money supply which, in percentage terms, exceeded that in the gross national product, so that the ratio of the money supply to the gross national product rose (see table in Chapter III, page 59) or — what amounts to the same thing — the velocity of circulation of money declined. In so far as the increase in the money supply was due to a balance-of-payments surplus, it was likely to go hand in hand with a decline in the velocity; the growth in the money supply was then one of the factors contributing to a fall in the interest rate, thus explaining, at least partly, the correlation between the latter and the decline in velocity.

In the United States, on the other hand, where the money supply expanded less than the gross national product, i.e. the velocity increased, the level of interest rates rose; and the causal connection was most probably the reverse; the increase in the interest rate brought about a rise in the velocity; in so far as this meant a relative shift from demand to time deposits, the increase in velocity did not, of course, contribute to a rise in effective demand.

It is also to a certain extent confirmed by the fact that the velocity of circulation of currency alone remained practically constant in almost all countries. The change in total velocity was due to the change in the rate of turnover of deposits. Money that is held idle is, as a rule, not in the form of currency but in the form of deposits; in other words, the effect of alterations in the interest rate on the willingness of owners of cash to activate it or to hold it idle can normally be expected to be reflected in the movement of deposits rather than in that of currency.

In every country the upswing brought with it a strong demand for bank credit from the private sector of the economy, mainly for purposes

of inventory accumulation, house-building and, in a number of countries, purchases of durable consumer goods. In some countries the funds for the expansion of bank credit to the private sector were largely provided by a liquidation of bank claims on the public sector; in others almost the whole of the additional bank credit had its counterpart in a corresponding increase in deposits on the liabilities side of the balance sheet.

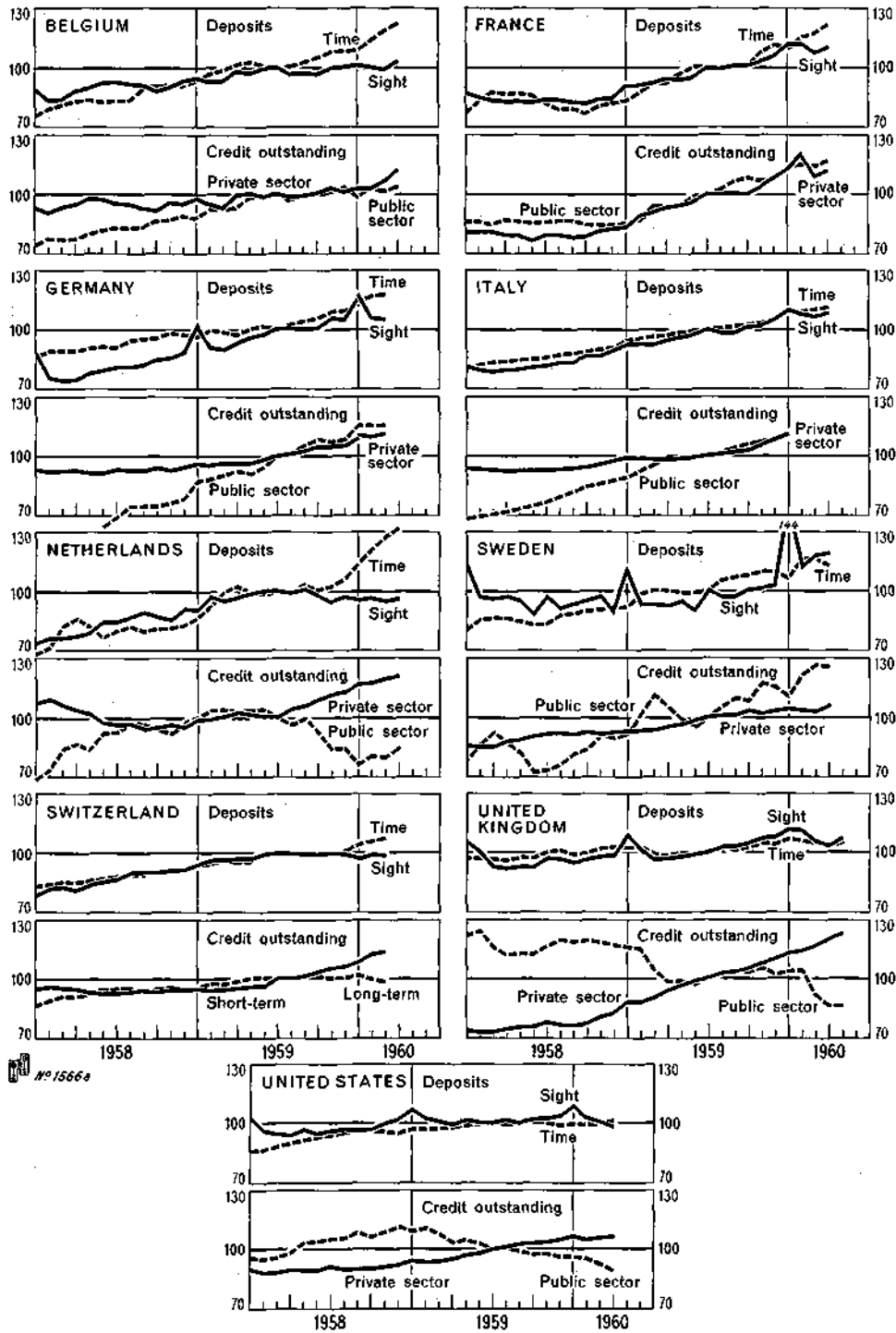
In the United States commercial-bank credit to the private sector increased during 1959 by \$12.6 milliard, or 12.8 per cent., while credit to the public sector fell by not quite \$7.5 milliard, or 11.2 per cent. — a decline which is identical with that in total bank investments, since other securities in the portfolio of the banks remained practically stable. Time deposits increased by rather more than \$2 milliard, while other longer-term funds (including the banks' own resources) rose by nearly \$3.5 milliard, so that sight deposits remained practically constant. Thus the expansion of bank lending did not cause any increase in the money supply.

In the United Kingdom the London clearing banks increased their advances between the end of 1958 and the end of 1959 by £692 million, which is equal to about one-third of the advances outstanding on 31st December 1958 and represents the largest expansion in any post-war year. Bank investments fell by £392 million, or 19 per cent., while total deposits rose by £468 million, or 6.5 per cent. The quite exceptional increase in bank advances was accompanied by a proportionately much smaller growth in deposits. The authorities bought a substantial amount of the securities sold by the banks with funds raised by the issue of Treasury bills placed mostly outside the banks. Thus in these two countries savings, which were partly of a temporary nature, in the form of purchases of Treasury stock and bills — carried out directly or through the medium of non-bank institutional investors — or (in the United States) in the form of an accumulation of time deposits made possible a considerable expansion in the amount of bank credit granted to the private sector. In other words, savings indirectly financed a large part of the credit expansion, so that the latter caused no increase in the money supply, or only a relatively small one compared with the size of the credit expansion.

In the Netherlands, too, bank credit to the private sector expanded and credit to the public sector fell — but by much more than the expansion in private bank credit (having declined by Fl. 740 million, as against a rise in private credit of Fl. 590 million). Moreover, total deposits rose by Fl. 870 million, of which well over half was accounted for by time deposits. An amount in excess of Fl. 1 milliard therefore remains to be accounted for. This mainly took the form of foreign assets. The increase in these assets thus absorbed more than the total amount of cash balances and secondary liquidity claims on the banks accumulated by the public.

In Belgium, France, Germany, Italy, Sweden and a few other countries bank credit to the private sector expanded, and at the same time, in contrast to the countries mentioned above, credit to the public sector also increased. In Germany (as in the Netherlands) there was also a rise in the banks'

Commercial banks: Deposits and credit outstanding.
 Monthly indexes: June 1959 = 100.



№ 1566a

foreign holdings. Part of the growth of these assets was matched by an increase in time deposits and part led, in varying degrees in different countries, to an expansion of the money supply in the form of demand deposits. It was in these countries that the ratio of the money supply to the gross national product increased; the inflationary effect which the expansion of the volume of money might otherwise have had was thus largely offset by a decrease in the velocity of circulation.

It was not the demand for bank accommodation on the part of industry that was responsible for the large credit expansion. In the countries examined this demand rose much less than that from other sectors. In the United Kingdom, for instance, advances to manufacturing industry rose between February 1959 and February 1960 by 18 per cent., while advances to hire-purchase houses shot up by 114 per cent. and personal and professional advances by 46 per cent. In the United States the increase in loans to commerce and industry by all insured commercial banks was of the order of 10 per cent., and real estate loans rose by 11 per cent.; but the greatest relative expansion took place in consumer credit granted both to sale-finance companies and direct to the consumers, which went up by altogether 17 per cent. In Germany the credit granted to industry, at both long and short term, by all banking institutions grew by not quite 9 per cent. but real estate credit went up by 20 per cent. and credit to commerce by 15 per cent. Similar movements took place in some other countries.

The difference between developments in the various countries is largely explained by the difference in the liquidity position of their banking systems. In the United States the Federal Reserve, in pursuance of a policy of restraint, raised the discount rate in several stages from a "low" of $1\frac{3}{4}$ per cent. in the summer of 1958 to 4 per cent. in September 1959, following the movement of the Treasury bill rate, which is itself influenced by Federal Reserve policy. Member-bank reserves were kept practically constant over the year, but the banking system had increasing recourse to the Federal Reserve, so that net borrowing (borrowing from the Federal Reserve System minus excess reserves), which at the end of 1958 amounted to \$134 million, increased to \$464 million over the year. The banks' shortage of reserve money, coupled with the rising discount rate, put them under pressure; if they wanted to satisfy the increased demand for bank advances they could do so only by selling investments.

In the United Kingdom Bank rate remained unchanged at 4 per cent. throughout 1959 and was raised to 5 per cent. in January 1960. The clearing banks expanded their total assets — and therefore also their deposits — as far as their liquid assets, which rose by £135 million, permitted. This rise, together with a slight fall in the liquid assets ratio from 34.6 to 34.3 per cent., made it possible for them to increase their deposits by 6.5 per cent. But the amount by which the banks were able to expand their assets was not sufficient to satisfy the demand for bank advances, so that investments had to be sold on a large scale.

The situation in the other countries was characterised by a high degree of bank liquidity during the greater part of the year and, in most cases, by a reduction in the official discount rate; only in the last quarter of the year was this development reversed in some of the countries. France and Germany may serve as an illustration. In France, where banks hold very little cash with the central bank, their liquidity is best measured by their available refinancing facilities at the Bank of France. Owing mainly to the surplus in the balance of payments, which provided the banks with funds, they were able to increase their facilities with the central bank from NFF* 1.75 milliard at the end of 1958 to NFF 6.44 milliard in August 1959; after that there was a decline, but at the end of the year the total of their available facilities was still considerably higher than it had been at the end of 1958. At the same time the Bank of France supported this development by reducing the discount rate in two stages from 4½ per cent. in October 1958 to 4 per cent. in April 1959 and by substantially reducing, in three stages, the "penalty rates" for the banks' borrowing beyond the ceilings. And since ceilings on bank advances were removed in February 1959, the banks were no longer prevented from reacting to their increased liquidity by expanding their credits and thus creating fresh deposits.

In Germany the liquidity of the banking system had been very high up to the end of 1958. Its indebtedness to the central bank, which had been consistently reduced in the preceding years owing to the cash inflow resulting from the balance-of-payments surplus, had remained low throughout 1959 and the banks had been able considerably to increase their foreign assets, which could at a moment's notice be turned into deposits with the central bank. The large cash base, together with the low level of indebtedness to the central bank, made possible a rapid expansion of credit and deposits. Until the autumn the central bank saw no reason to counteract this expansion; on the contrary, it supported it by lowering the discount rate to 2¾ per cent. in January 1959. In September, however, when the expansion of bank credit seemed to be going too far, the central bank gave a warning signal by raising the discount rate from 2¾ to 3 per cent.; and later, when the expansion did not slow down, it took stronger measures by raising the discount rate in October to 4 per cent. and again, early in June 1960, to 5 per cent. and also by increasing reserve requirements in four stages, so that by 1st June 1960 they stood at 20.2 per cent. for sight deposits held with big banks in banking centres. In addition, the discount ceilings for banks were lowered.

In Italy, too, as in France and Germany, it was the balance-of-payments surplus which created additional liquidity in the banking system and made possible the expansion of bank credit both to the government and to the

* This abbreviation is used in the present Report to indicate "new French francs". For the sake of comparability, all amounts in French currency are given in new francs, irrespective of whether the period in question was before or after the change-over to the new unit. Similarly, wherever the word "franc" alone is used in connection with France, it is to be understood, in the absence of any statement to the contrary, to mean the new franc.

private sector. In other countries where an increase in credit had its counterpart in an increase in deposits the favourable liquidity position was due to a variety of causes; but in all cases it was this liquidity position which enabled the banks to expand private credit without having to draw on their investments.

The different course taken by banking and monetary developments in the various countries discussed above can, in fact, be taken as a sign of the effectiveness of monetary policy. The restrictive policy of the Federal Reserve System prevented deposits from increasing in proportion to the large increase in loans and forced the banks to sell investments. In the United Kingdom the relative smallness of the supply of Treasury bills to the banks had a similar effect. In other countries, however, where the central banks, in an attempt to stimulate monetary demand, deliberately allowed additional liquidity to develop in the banking system or even actively contributed to it, the expansion of bank credit was accompanied by a more or less equal growth in bank deposits.

The difference in the liquidity positions of the banking systems in the various countries also goes a long way towards explaining the different movements of short-term interest rates (see graph on page 60). In the United States the shortage of reserve funds, together with an increase in the amount of Treasury bills offered by the government, led to a steep rise in the Treasury bill rate. In the United Kingdom, after a sharp fall in 1958, the Treasury bill rate remained more or less stable throughout the greater part of 1959. In Germany and the Netherlands — both countries with a very liquid banking system — the Treasury bill rate fell during the greater part of the year and only began to rise again when the central banks embarked on a restrictive policy. In the other countries in this category, where Treasury bills are of no importance, the decline in such short-term rates as that for day-to-day money reveals the effect of the liquidity of the banking system on the short-term rates. As a result of these different developments, the spread between short-term rates in the various markets, which had been relatively small at the end of 1958, widened again during the year under review, and this had an effect on short-term international capital movements.

Long-term rates, which change much less than short-term rates but which, because of the possibilities of arbitrage between the money and the capital markets, generally move in the same direction, rose in the United States, remained roughly stable in the United Kingdom, and came down spectacularly in France, Germany and Italy. The sharpest reduction, it is true, occurred in 1958, but in all three countries the fall continued, though not uninterruptedly, at least until the middle of 1959 and in France until the end of the year. In Germany the restrictive monetary policy, together with the developing boom, brought rates up again towards the end of the year, while in Italy a temporary rise took place around the middle of the year in connection with the issue of a large government loan.

In none of the countries, with the exception of the United States for a very short while at the end of the year, did the short-term rate rise above the long-term rate. In the United States the ceiling on the rate for long-term government financing may, by forcing the Treasury to resort to the short-term market, have been one of the factors that caused the short-term rate to catch up with and even rise above the long-term rate. As the graph on page 60 shows, there can now be said to be, with regard to the long-term government-bond rate, three layers of countries, the first being composed of Belgium, France, Germany, Italy and the United Kingdom, where the rates are between 5 and 6½ per cent., the second comprising the United States, Sweden and the Netherlands, where the rates are between 4 and 4½ per cent., and the third being formed by Switzerland, where the rate is still not much above 3 per cent. There seems to have been a tendency for long-term rates gradually to move closer together — a tendency which, on account of the greater freedom of long-term capital movements between countries, can perhaps be expected to continue.

Whereas the private sector as a whole everywhere greatly increased its indebtedness to the banking system in 1959, the extent to which the corporate sector had recourse to the long-term capital market as a provider of funds varied considerably from country to country. In the United States, Germany, Italy and the Netherlands corporations issued fewer securities than in the previous year. If what happened in the United States, where the increase in profits after taxes enabled corporations to retain \$4.6 milliard more than in the previous year for self-financing purposes, is any guide, one of the reasons lies in the increase in corporate profits in these countries. In others

Capital-market issues by the private sector.¹

Countries	Years	Shares	Bonds	Total	Percentage of shares in total
		In millions of national currency units*			
Belgium	1958	3,430	2,080	5,510	62
	1959	3,750	3,310	7,060	53
France	1958	1,960	920	2,880	68
	1959	3,230	1,810	5,040	64
Germany	1958	1,140	1,880	3,020	38
	1959	1,260	1,330	2,590	49
Italy	1958	340	440	780	44
	1959	330	380	710	46
Netherlands	1958	30 ²	240	270 ²	.
	1959	90	160	250	36
Norway	1958	140	180	320	44
	1959	160	330	490	33
Sweden	1958	150	60	210	71
	1959	190	40	230	83
United Kingdom	1958	90	100	190	50
	1959	280	120	400	70
United States	1958	1,900	9,100	11,000	17
	1959	2,550	7,090	9,640	26

* For Italy, in milliards.

¹ Including issues by financial institutions.

² Excluding an issue by the Royal Dutch Petroleum Company of Fl. 867 million. About 25 per cent. of this amount was taken up by the Dutch capital market.

(Belgium, France, the United Kingdom) the use made of the capital market by the corporate sector was considerably greater in 1959 than in 1958.

Except in the case of the United Kingdom, it is not possible to make a comparison between the savings of companies and their investments with the object of finding a clue to the reasons for the increase in capital-market issues. In the United Kingdom the savings of companies exceeded their domestic investments by almost £400 million. The fact that capital issues increased despite this excess, which was larger than in 1958, can hardly be fully accounted for by the virtual removal of restrictions on new issues by domestic borrowers; the reason must be sought either in an increase in foreign investments or in the uneven distribution of these savings in comparison with investments between companies.

There is, however, some uniformity between the countries in the relative shift from bonds to shares. In all countries except Belgium, France and Norway share issues accounted for a larger percentage of the total than in the previous year. In the case of the Netherlands, where the issue of shares by the Royal Dutch Petroleum Company in 1958 distorts the picture for that year, the comparison should be made with 1957, when the percentage of shares in the total was 13.5, as against 36 in 1959. The shift towards shares was undoubtedly caused by the extraordinary rise in their prices. In all countries for which statistics are available the rise in share prices was such that the average yield on shares was lower than that on industrial bonds — a situation which had already existed in some countries in 1958.

The rise in share prices in 1958 and 1959 is perhaps best thrown into relief by a comparison with their rise in the United States during the famous

Share prices.

Countries	1958	1959	1960
	December	December	March
	Index: December 1957 = 100		
France	86	140	130
Germany	151	259	267
Italy	116	188	192
Netherlands	142	203	200
Sweden	116	166	150
Switzerland	120	156	154
United Kingdom	128	189	181
United States	133	146	136

speculative period of the 1920s, which ended in September 1929: in the two years from September 1927 to September 1929 the index of stock prices went up by 76 per cent. It must, however, be added that today purchases of shares are financed much less by short-term credit than they were then, so that from this point of view a rise in stock prices is less "dangerous" nowadays. Several factors contributed to the rise in 1958-59. On

the supply side, the amount of new material coming onto the stock exchange has been small for a number of years. (In the United States, for instance, the volume of share issues, amounting to \$1.9 milliard in 1958 and \$2.5 milliard in 1959, compares with a total issue of \$3 milliard in 1928 and one of no less than \$6 milliard in 1929 — figures which, in view of the change in the price level, need to be almost doubled for comparison with present-day figures.) On the demand side, the ever-increasing popularity of investment trusts brought into the share market funds which, since they came from lower-income

relative stagnation. Among the few exceptions is Germany, where hourly earnings rose more than in the previous year, although, as in other countries, hourly wage rates increased less. The reason is quite clearly that the shortening of the working week raised the component of overtime pay in hourly earnings and that the shortage of labour aggravated what is nowadays called the "wage drift"; in other words, competition among employers caused them to increase the differential between the wages actually paid and the rates negotiated.

The fact that in 1959 there was a smaller wage increase than in 1958 in spite of the development of boom conditions may be attributed to two main factors. One of these was the relative stability of the cost-of-living index in 1958 in most countries, which interrupted the price-wage spiral, since there was no need for cost-of-living adjustments to wage rates. A second reason may be — although one cannot be emphatic on this point — that the relatively high level of unemployment in 1958 was responsible for the moderation of the claims put forward in wage negotiations in 1959 in the majority of countries. Every boom in the past has been accompanied by a certain rise in the general price level; the present one is no exception. From this point of view the moderate price rise that occurred in 1959 and the first quarter of 1960 should not cause undue alarm for the time being. These days, however, the price rises which take place in boom periods have one feature which was not to be found in pre-war years and which makes them much more dangerous than they used to be: increases in the general price level are now never reversed to any substantial extent, even if recessions develop. If they are not prevented, therefore, the picture that will present itself in the longer run — as it has done in the recent past — will be one of rising prices during booms with, at best, stable prices in periods of stagnation, instead of falling prices as in earlier times; and the general trend of the price level will be upwards. Thus, whereas the authorities could formerly view rises in the price level in periods of boom with some equanimity, knowing that they would be reversed again, they are now under a much greater compulsion to fight them from the beginning of a developing boom in order to prevent the price level from rising in the longer run.

The reasons for the irreversibility of the price movement which is characteristic of periods of stagnation in the post-war years are to be found, on the one hand, in the inflexibility of the general wage level, as far as downward adjustments are concerned, and, on the other hand, in the fact that industrial concerns in a monopolistic or quasi-monopolistic position do not lower their prices in the face of declining demand; that is to say, in general terms, the cause is the prevalence of monopoly in the markets both for labour and for goods. This is not to say that the prices of individual products never fall nowadays; but, if they do, it is as a result of cost reductions due to technical innovations and the consequent rise in productivity per man and hardly ever as a result of declining demand.

While the fight against inflation in periods of upswing has thus become more important than in the past, it has also become more difficult.

It is now generally recognised that in the post-war years two new causes of inflation have been added to the old familiar one of excessive overall demand originating in the private and/or public sector. The first is an autonomous wage push beyond the increase in average productivity; and the second is the concentration of demand in one sector, for instance that of capital goods, which may induce a wage rise in that particular sector which will then spread to others and may also occasion a rise in the price of such materials as steel, so that, owing to higher costs, prices will be raised in these other sectors, too, even though the demand for their products has not increased — a possibility which has been rightly stressed in some of the publications of the Joint Economic Committee of the U.S. Congress.

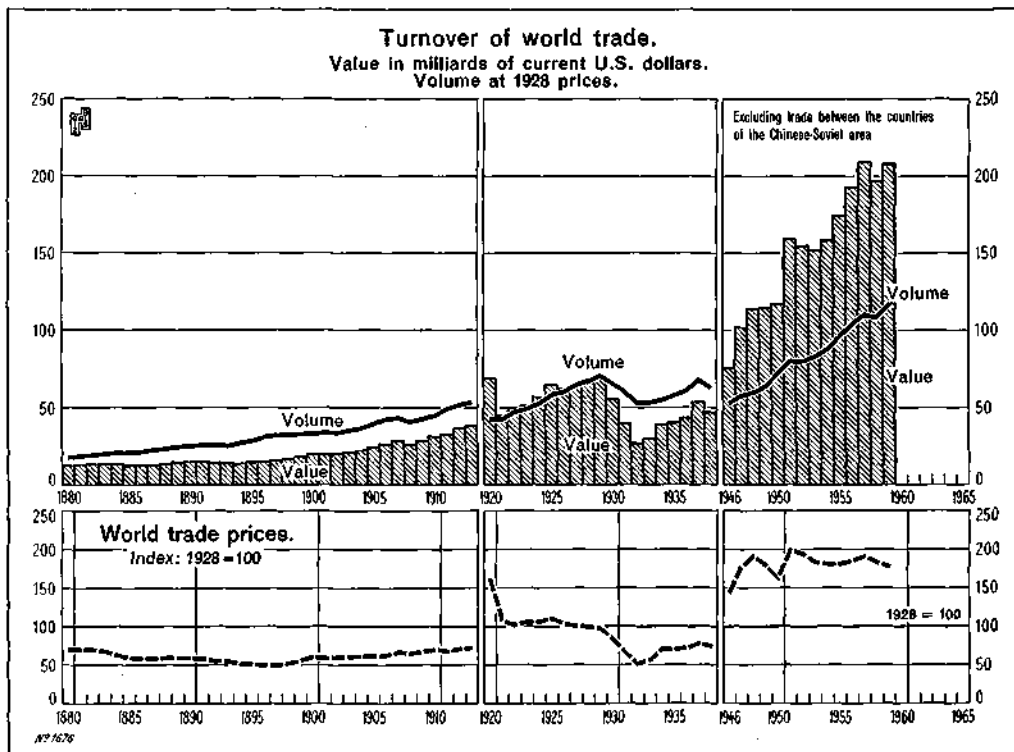
Unless the economic system is so liquid to begin with that investments can be financed by drawing on the surplus of liquid funds, monetary policy is quite capable of coping with an over-rapid rise in total demand originating in the private sector as a result of an excess of investment over savings. This is indeed the "classical" situation in which monetary policy works satisfactorily; it is the situation with which the older standard works on monetary policy were exclusively concerned. The task of the central banks is already made much more difficult if public bodies, through excessive expenditure, for example on investment, contribute substantially to the inflationary process, since under these conditions the central banks, if they want to damp down the boom and the resultant price rise, are forced to pursue a much more restrictive policy than would otherwise be necessary. Budgetary policy must be co-ordinated with monetary policy if the latter is not to be overburdened.

But the most difficult situation for the monetary authorities is that in which excessive wage claims are granted or wage and other cost increases originating in one sector, where the concentration of demand makes them bearable, spread to other sectors in which they lead to price increases. Budgetary or monetary policy can then hardly be expected to prevent a rise in the general price level without affecting the level of employment; and even then the upward movement of prices may not be checked, as the last recession in the United States demonstrated. This, again, is the consequence of the strength of monopolistic forces in the modern economy, which, as experience has shown, tend to bring about price increases, irrespective of the level of demand, when costs per unit of output rise. In present-day circumstances restraint in wage claims, keeping them within the compass of the rise in average productivity, and restraint in price policy by business, which would be best guaranteed by a greater degree of domestic and foreign competition, are among the most important conditions for the maintenance of a stable price level. This being so, it would be naïve to expect the monetary authorities alone to achieve price stability with the instruments at their disposal. Budgetary and monetary policy, wage policy and the price policy of enterprises have to move in harmony if inflationary tendencies are to be kept in check. The new wage claims announced for 1960 and the investment policies pursued in some countries by public bodies are unfortunately

such that there is reason to fear that the price stability which prevailed in Europe in 1958, and still to a certain extent in 1959, will again be endangered.

* * *

The upsurge in economic activity in the countries of the industrialised West brought with it an increase of 5.5 per cent. in world trade turnover (excluding trade between the eastern countries). As, owing to the lower freight content of import figures, world trade declined by 6 per cent. in 1958, it has not yet returned to its 1957 level. But exports alone were greater in 1959 than in 1957. The trade of the industrialised countries of the West with each other and with the rest of the world rose more than the average, viz. by 7.6 per cent., which is slightly above the increase in the trade of Europe and North America, each considered separately, while the trade of non-industrialised countries increased by only 0.7 per cent.



The most remarkable development in this general pattern is, however, shown by the trade of the six E.E.C. countries with one another; this grew by no less than 19 per cent., while their exports to the rest of the world rose by 7.5 per cent. and their imports actually declined somewhat. While special non-recurring factors — such as the devaluation of the French franc — influenced this result, these are not sufficient to explain the very large increase in trade between the Six. Nor can the reason lie in discrimination by the Six against outside countries, which was negligible in 1959. It must be assumed that exporters, in anticipation of the reduction in customs tariffs

scheduled for 1960 and later, have actively explored the possibilities of the neighbouring markets within the Community and have intensified their contacts with customers in these markets. The creation of the Common Market has clearly begun to affect the channels of trade within Europe, although discrimination has played practically no rôle yet.

The international trade of the eastern countries is still far below the level reached by comparable countries in the West but is developing a good deal faster. In 1959 Soviet trade turnover, at \$10.5 milliard, was only equal to one-third of that of the United States or one-half of that of the United Kingdom, while it was roughly the same as that of France. Eastern Germany and Czechoslovakia had caught up with Switzerland in 1959, but Poland and Hungary were still considerably behind that country. The rate of growth of trade, however, was much higher in the eastern countries than in the West. In 1959 Poland increased its trade by 12 per cent., Czechoslovakia and eastern Germany by about 15 per cent., Hungary by 19 per cent., the U.S.S.R. by 22 per cent. and Bulgaria by as much as 42 per cent. In the case of three countries precise figures are available for transactions within the eastern bloc and with the rest of the world. The share of the West in the trade of Czechoslovakia, Hungary and Poland was 29 per cent., 33 per cent. and 38 per cent. respectively and had fallen only very slightly compared with 1958, so that East-West trade — at least in the case of these three countries — progressed at practically the same rate as that with the rest of the eastern bloc.

* * *

In the international financial field two problems dominated discussions in 1959: the first was the deficit in the balance of payments of the United States, and the second — which arose only towards the end of the year in some countries and even then not yet in a serious form — was the conflict between the exigencies of domestic monetary policy and balance-of-payments considerations.

The gold and short-term dollar holdings of countries other than the United States and of international financial institutions rose in 1959 by \$5.1 milliard, or, if foreign-held government bonds and notes are included, by \$5.7 milliard (both figures exclude the gold reserves of the U.S.S.R., other eastern European countries and mainland China but include their dollar holdings). This increase was the largest in any post-war year. More than half the total increase of \$5.1 milliard in short-term dollar and gold holdings was absorbed by the International Monetary Fund as a result of debt repayments to it and of the new subscriptions by member countries.

Western Europe alone, owing to its balance-of-payments surplus, gained \$1.6 milliard — considerably less than in 1958 but still substantially more than in previous years. The growth in Europe's gold and short-term dollar reserves would have been much larger had it not been for the above-mentioned new subscriptions to the International Monetary Fund and the

repayment of debts by France to the Fund, by the United Kingdom to the Fund and the Export-Import Bank and by Germany — in the form of the advance repayment of foreign aid — to the U.S. Government, these transactions having amounted altogether to \$1.3 milliard.

It is worth noting that a double shift has occurred in the form taken by the increase in the short-term dollar and gold reserves of the rest of the world. Whereas in 1958 dollars accounted for 24 per cent. of the total increase, in 1959 they accounted for 63 per cent.; and whereas in 1958 the rise in dollar deposits was larger than that in total dollar holdings, in 1959 the reverse was the case, the increase in holdings of Treasury and commercial bills having been greater than the total addition to dollar holdings. Both shifts were at least partly due to the same cause: the high rate for Treasury and commercial bills in New York in 1959.

World gold and short-term dollar holdings.

Areas and countries	End of 1958	End of 1959	Changes during	
			1958	1959
In millions of U.S. dollars				
Western Europe*	21,321	22,922	+ 3,688	+ 1,601
<i>of which</i>				
France	1,282	1,945	+ 347	+ 663
Germany	4,394	4,624	+ 295	+ 230
Italy	2,207	3,118	+ 676	+ 911
United Kingdom	3,723	3,471	+ 848	- 252
Other countries (excluding the United States)	11,242	12,024	+ 310	+ 782
International institutions	2,876	5,565	+ 179	+ 2,689
Total	35,439	40,511	+ 4,177	+ 5,072
U.S. gold stock	20,582	19,507	- 2,275	- 1,075

* Including dependencies.

In order to estimate the contribution made by the U.S. balance-of-payments deficit to the increase of \$5.7 milliard in the gold and dollar holdings of the rest of the world, the United States' gold and dollar subscriptions to the I.M.F. and the accretion to the gold stock from new gold production and other sources — mainly Russian sales — have to be deducted. U.S. subscriptions to the Fund and "new" gold amounted to about \$2.2 milliard, leaving, for the net transfer of gold and dollars by the United States to the rest of the world, the sum of \$3.5 milliard; the U.S. balance-of-payments statistics put the deficit at \$3.7 milliard, the difference being due to the exclusion from the first figure of changes in the liabilities of non-financial businesses and certain U.S. Government agencies.

The overall deficit in the U.S. balance of payments was the result of deficits on both current and capital account. Imports of goods and services exceeded exports by \$0.9 milliard, whereas in 1958 there had been a surplus of exports over imports of \$1.5 milliard. The outflow of capital and of

government grants was smaller than it had been the year before, while the capital inflow was greater, with the result that there was a net outflow of only \$2.8 milliard, against one of \$4.9 milliard in 1958. But since there was also an outflow of funds on current account in 1959 instead of a substantial inflow, as in 1958, the overall deficit increased from \$3.4 milliard in 1958 to \$3.7 milliard in 1959. The deterioration which took place in the current balance of payments in 1958 and 1959 was largely attributable in the earlier year to a decline in merchandise exports, whereas in 1959 it was exclusively due to an increase (of \$2.4 milliard) in merchandise imports. The largest import rises were in manufactured consumer goods (especially motor-cars), in some raw materials and, mainly on account of the steel strike, in steel.

Two different explanations are currently offered for the deterioration in the U.S. trade balance. One reason given is as follows: in the post-war years, before Europe had completely recovered its productive power, the United States was the only source of supply for a large number of commodities urgently needed in Europe, while Europe, faced with an unsatisfied home demand, had much less to offer to the United States. In those years the United States did not out-price Europe; it out-produced Europe, and, as a result, its balance of payments showed large surpluses paid for by U.S. capital exports and grants — and occasionally also a loss of gold and dollars on the part of Europe. As soon as Europe had got back on its feet, however, the situation began to change. It became less dependent on U.S. supplies, while at the same time it was able to become more active in foreign markets; inevitably, therefore, its balance of payments improved, and this enabled it to build up its foreign exchange reserves — a desirable and necessary process.

This notion certainly provides a large part of the explanation for the recent tendency of the U.S. balance of payments to deteriorate, but, apart from the fact that it is somewhat arbitrary to put the date of Europe's recovery of productive power (which enabled it to become more independent of the United States) as late as 1958, it does not account very well for the events of 1959, when the United States' exports remained at their 1958 level, while its imports, mainly from Europe, substantially increased in spite of rising home demand in the European countries. It seems that there must be something more behind this problem than can be explained by structural changes alone.

The second explanation is based on the declining competitiveness of the U.S. economy and is one which it is very hard, if not impossible, to support with statistical evidence, unless the increase in European exports to the United States and the decrease in the latter's share in exports to third countries are taken as sufficient proof of a relative decline in U.S. competitiveness. Without entering into this complicated problem in detail at this juncture (for further comments see Chapter II), it may suffice to say that there is no justification for asserting that U.S. competitiveness has declined all along the line but that there is some ground for thinking that in certain branches of production, such as motor-cars, electrical equipment,

steel and some types of machinery, European industry can offer better terms than U.S. industry. But there is as little reason today for assuming from the deficit in the U.S. balance of payments in the past two years that there is likely to be a chronic dollar abundance as there was in earlier years for drawing from the surplus in the U.S. balance conclusions regarding the prospect of a chronic dollar shortage. In fact, the U.S. balance of payments showed distinct signs of improvement in the last quarter of 1959 and the first quarter of 1960.

At present the aggregate short-term dollar holdings of foreign countries (excluding those of the I.M.F.) are not much less than the total gold stock of the United States, and the time may not be far off when they will exceed it — a situation in which, *mutatis mutandis*, the United Kingdom has found itself for a long period. The alarm felt on this score in some quarters is, however, quite unfounded as long as foreign owners of dollars are not tempted to change them into gold in large quantities. Such action might result from the prospect of a change in the gold price, but official U.S. circles have always declared this to be out of the question and this possibility can therefore be excluded here. It can, however, also happen that owing to a change in the international interest-rate structure — causing short-term rates to be substantially higher in Europe than in the United States — foreign commercial banks may withdraw their dollar holdings and sell them to their central banks against domestic currency, while the central banks, either under their statutes or because they customarily keep a certain balance between their gold and dollar holdings, take the addition to their reserves wholly or partly in gold, with the result that the U.S. gold stock may decline below what is considered to be a safe level. To prevent such happenings, large interest-rate differentials between the United States and Europe should be avoided in the future. This is just one example of the conflict mentioned at the beginning of this section between the exigencies of domestic monetary policy and balance-of-payments considerations.

This conflict between intended internal and unintended external effects of interest-rate policy was already observable in some countries, on a small scale, in the period under review. The best example is perhaps afforded by Germany in the last quarter of 1959. The Bundesbank raised its discount rate on 4th September from $2\frac{3}{4}$ to 3 per cent. and again on 23rd October to 4 per cent. Its declared intention was to slow down domestic credit expansion. The Bundesbank was well aware that the last increase in the discount rate might lead to a repatriation of foreign holdings by commercial banks and to a fresh inflow of foreign-held short-term money, an effect which was contrary to its intention, since it was not in its interests to accumulate foreign exchange again — not only because this would be bound to attract criticism from abroad but also because such an inflow of foreign money would make the banking system more liquid just when the central bank's efforts were being directed towards reducing this liquidity. Indeed, in November and December the commercial banks sold foreign exchange to the tune of DM 736 million to the Bundesbank (window-dressing may have

played its part in this), and the amount of foreign money flowing into the commercial banks rose by DM 570 million — two factors which accounted for the greater part of the increase of DM 1.6 milliard in the dollar holdings of the Bundesbank in these two months. This episode was soon terminated, mainly because interest rates began to rise in other countries too. But it is interesting to note that the severe restrictive measures adopted in February 1960 did not include a further raising of the discount rate because, as the Bundesbank expressly stated, it did not want to give a new incentive for the further repatriation of German funds from abroad or for a fresh inflow of foreign funds. Restrictive measures are, however, bound to influence the level of market interest rates. At all events, domestic developments in the spring were such that the Bundesbank found it necessary to increase the rate to 5 per cent. at the beginning of June 1960.

The decision as to whether the domestic aims of monetary policy should have priority over balance-of-payments considerations is never an easy one; in countries which depend relatively little on foreign trade the exigencies of the domestic economic situation generally predominate over the international requirements of monetary policy whenever the two are in conflict, while in countries where foreign trade is large in relation to the gross national product balance-of-payments considerations play a more prominent rôle. It is significant that Belgium raised its discount rate at the end of 1959 not with a view to checking domestic demand but in order to stem the outflow of short-term money. In any case, once convertibility had been introduced, it clearly became of much greater importance that the national economies should move in step in order to minimise the chances of such conflicts arising; the need for international co-operation in this field has thus become more urgent than it was before.

In the first quarter of 1960 business men and economists viewed the economic outlook for the rest of the year, generally speaking, with optimism. The fixed-investment expenditure planned by private industry and the official forecasts of such expenditure made early in 1960 revealed considerably higher rates of increase than those actually achieved in 1959. In the case of the United States the figures in the table represent anticipated investment as reported by business men to the Office of Business Economics and the Securities and Exchange Commission; in the case of the United Kingdom they

Anticipated fixed investment expenditure for 1960.

Countries	Percentage Increase over actual expenditure in 1959
Belgium	10.2
France	8.5
Netherlands	14.0
Sweden	12.8
United Kingdom.	16.0
United States	14.0

are based on data given to the Board of Trade by a representative sample of companies; the figure for the Netherlands is taken from the Central Economic Plan for 1960 and, similarly, that for Sweden is from the national budget for that year, while the figure for Belgium reflects a forecast by the O.E.E.C. and that for France a prediction included in the provisional accounts of the nation for 1959.

Such estimates of the gross national product as are available also put the 1960 levels above those achieved in 1959, the increases expected being: Belgium 3.5 per cent., France 5 per cent., the Netherlands 8 per cent. and Sweden 4 per cent. In the United States manufacturers looked forward in their estimates to an 8 per cent. increase in sales in 1960 and traders to one of 5 per cent. The estimated figure for the increase in the gross national product in 1960 over 1959 would be roughly achieved if the level of production reached in the first quarter of 1960 were maintained. Figures of this kind cannot, of course, be taken at their face value, for in the past planned investment expenditure has often been revised and forecasts have gone wrong. They are, however, evidence of the optimistic attitude of the business community and the public authorities early in 1960, an attitude which in itself will do much to influence economic development in the very near future.

Nevertheless, the figures are probably on the high side. There were, of course, factors present early in 1960 which were very favourable to investment and which account for the optimistic investment plans. Among these, mention may be made, in particular, of the unusually high level of profits in 1959, which is likely to have increased the propensity to invest; the expectations that similar profits will be made in 1960, thus providing large internal funds for self-financing; and finally the strong liquid position which companies had built up by the beginning of 1960 (see Chapter III). Wage increases may, however, cut into profits, thus reducing the funds available for self-financing; moreover, higher interest rates — at least in the European countries — and the increasing difficulty of obtaining bank credit (both resulting from the restrictive monetary policy that most European countries embarked upon towards the end of 1959) may cause business firms to reduce their planned investment to below the level anticipated early in 1960. Enough will, however, surely remain to stimulate effective demand from the investment side. And a second stimulus is likely to come from consumption, inasmuch as the wage increases to be expected during 1960 will cause consumption expenditure to rise.

If increased outlays for investment and consumption are not to cause inflationary price rises, they must be prevented from exceeding the expansionary potential that was still left on the supply side after the upswing in 1959. The fear that investment and consumption expenditure may overshoot this mark in 1960 began to influence monetary policy in most European countries towards the end of 1959 and that in the United States much earlier, and it also affected budgetary policy for the fiscal year 1960 in quite a number of countries where budgetary planning was rather conservative. The restrictive measures were, on the whole, taken somewhat earlier this time than in previous upswings, and this may lead to a smoother upward movement of the economies and reduce the extent of a possible setback later.

II. The Formation and Use of the National Product.

In last year's Annual Report the view was expressed that the retardation of economic expansion in western Europe in 1958 reflected influences of both a cyclical and a structural nature. The rapid advance in 1959, which has continued so far into the current year, somewhat surpassed the expectations based on this view. In the course of their advance the western European economies seem to have taken up the slack which had developed during the 1958 pause and also to have reaped the fruits of the additional productive capacity created in the investment boom of 1955-57.

The way in which, since 1957, the production curve has crept up towards the investment curve is shown by the graph on the next page. As a result of the sharp rebound of production, the out-turn for the years 1956-60 will prove substantially more favourable than the O.E.E.C. forecast, made in 1956, of a 3.2 per cent. annual growth in the gross national product. The rate of growth for the O.E.E.C. member countries combined, which was 5.5 per cent. in the two years 1954-55, approached 3½ per cent. in the three-year period 1956-58 and rose to 4 per cent. in 1959.

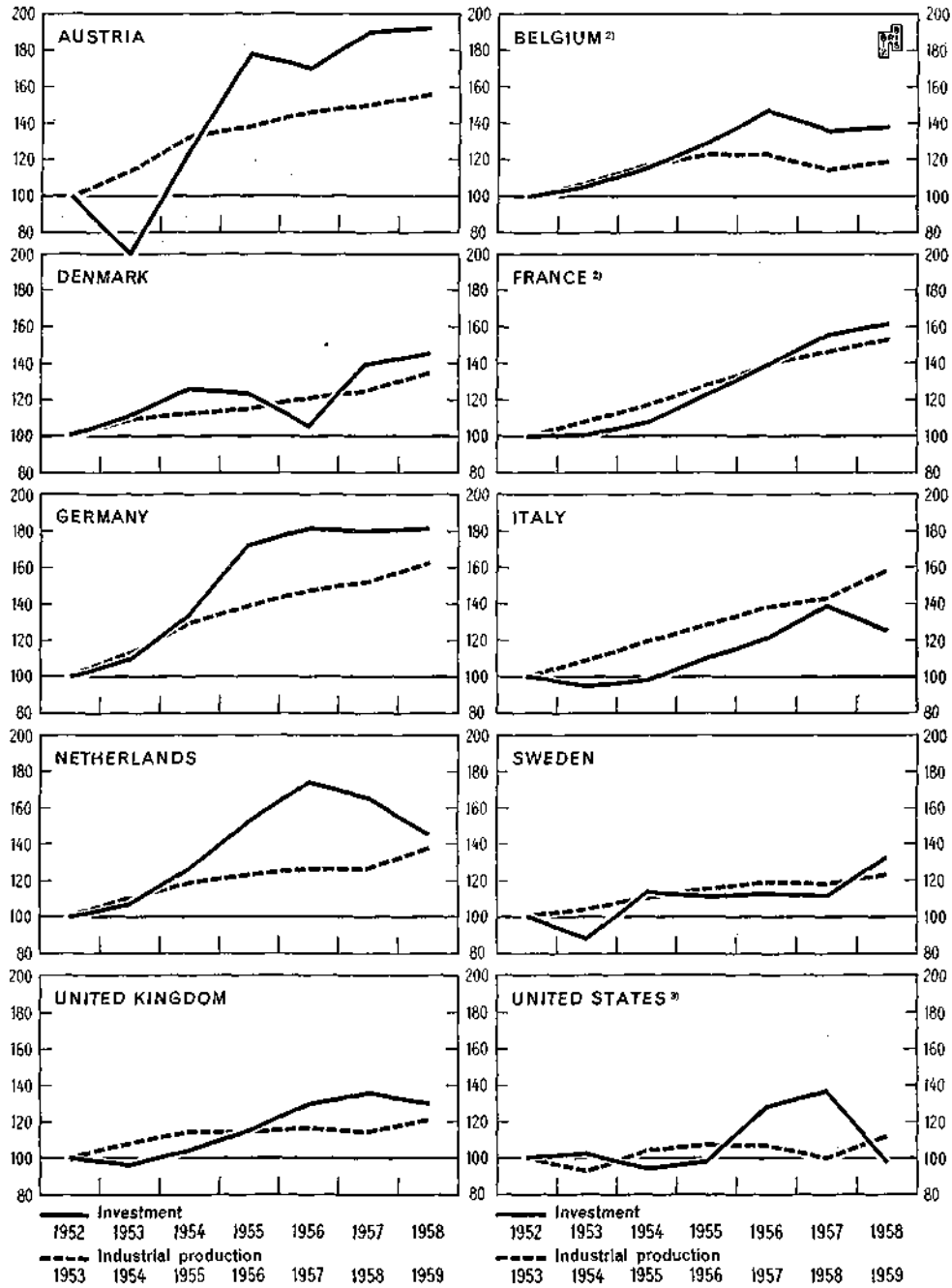
The rate of growth over the last decade has been considerably faster in the area which now forms the European Economic Community than in the rest of the O.E.E.C. area, although within the two areas there have been sharp differences from country to country — for example, in Austria expansion has been three times as rapid as in Belgium. During 1959, however, as a result of the marked revival of activity in the United Kingdom and

Gross national product: Annual rate of expansion.

Countries	In current values		In real terms	
	1949-53	1954-58	1949-53	1954-58
in percentages				
Belgium	5.4	4.9	3.7	2.6
France	16.6	9.6	6.6	4.8
Germany	14.1*	9.3	11.4*	6.8
Italy	9.6	7.3	6.2	5.3
Netherlands	9.8	8.5	4.1	4.0
Austria	21.8	10.3	8.8	7.1
Denmark	8.7	5.3	3.7	2.3
Norway	10.5	7.0	4.6	3.2
Sweden	9.1	6.7	3.2	3.4
Switzerland	4.6	6.1	3.4	4.7
United Kingdom	7.3	6.1	2.6	2.2
O.E.E.C. member countries combined	11.1	8.1	5.7	4.3
United States	7.1	3.9	4.7	1.6

* 1950-53.

Gross fixed investment in manufacturing and construction (volume index: 1952 = 100) and industrial production (index: 1953 = 100).¹



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¹ Industrial production is shown with a time-lag of one year, i.e. the figure for 1953 is plotted at 1952, etc.
² Investment in machinery and equipment. ³ Investment in manufacturing only.

Scandinavia and of the adjustment of the French economy to a healthier monetary climate, the two areas almost fell into step with one another. In relation to pre-war levels of activity, the E.E.C. countries, which, taken as a whole, suffered more severely from war devastation, have completed their catching-up process and secured a lead over the other group.

Economic expansion has been promoted since the war by the maintenance of high levels of demand — a condition related in the early post-war years to the pressure of reconstruction needs combined with a legacy of excess liquidity and the implementation throughout the period of high-employment policies. The balance-of-payments effects of such high levels of domestic demand have been offset by the large flow of dollars resulting from U.S. investment and government expenditure abroad, together with the gradual but substantial reduction in U.S. tariffs. The exceptions to the high level of employment have been of both a cyclical and a structural nature. Cyclical fluctuations have been mainly caused by the undulating movements of investment in fixed assets and stocks. They have at times been aggravated by war scares and other changes in the political climate, which have superimposed upon them the effects of changes in defence expenditure. The two main structural exceptions have been in declining industries and underdeveloped regions. The movement of labour away from coal-mining, the textile industries and agriculture, as well as from the over-populated areas in southern Europe, has not been sufficient to eliminate structural unemployment. There are still pockets of workers in the middle and higher age-groups who lack the mobility and the skills required to enable them to be drawn into gainful employment.

With the level of demand so high, inflation has been a constant menace. At the moment the western European economies have once again almost reached the limits of their capacity, and the need to restrain the volume of demand by government and central-bank action is generally recognised. The state of the labour market, the new investment wave and the lengthening of order books are all indicators of impending strain. But the pressure on resources has not had any markedly adverse effects on balances of payments or on prices (the price increase which occurred in several countries in the second half of 1959 and the beginning of the current year having been largely confined to food and certain regulated prices). The conclusion therefore seems warranted that western Europe has improved upon all its previous efforts to reconcile the attainment of high levels of employment with monetary stability and external solvency.

In the case of the United States the problem of the compatibility of these goals has in recent experience proved somewhat more difficult to solve and is the central theme of public discussion of economic policy aims. A thorough analysis of its many facets has recently been made by the Joint Economic Committee of Congress. The emphasis in this analysis is on the downward inflexibility of prices and wages, which imparts an upward bias to their movement. The speed of the upward trend is related to shifts and cyclical movements in the pattern of demand, which cause general or sectoral upward

pressures on the wage-price level, and also to the exercise of market power on the part of business and labour, which has been particularly strong in the steel and motor-car industries. Changes in the volume of certain items of government demand are also shown to have played an important part in generating instability and consequently inflation. It is maintained that the instability of demand levels, together with the attempt by the monetary authorities to counteract the forces making for inflation, has caused under-utilisation of labour and capital and retarded growth. A different "policy mix" is advocated under which the burden of restraining demand would be shifted to some extent from monetary to fiscal policy and the market power of economic groups would be combated through legislation and freer imports. Whatever the merits of this analysis as a description of the position in the United States, it would appear that the agents of inflation on which it lays stress have not been as active in western Europe. The description of developments in the formation and use of the national product may bring to light some of the contrasting features in the experience of the two areas. The treatment of western Europe as a unit has been inspired by two considerations. In the first place, as a result of the co-ordination of certain aspects of economic policy by the O.E.E.C. and the expansion of intra-European trade, cyclical fluctuations have tended to spread beyond national borders. Secondly, in the U.S. economy, owing to its larger size, there is more room for fluctuations to be averaged out between regions than in any individual western European country.

As regards the uses of the national product, the position of western Europe as a whole vis-à-vis the United States is characterised by a higher rate of domestic investment and exports and a lower rate of defence expenditure. The level of interest rates during the last decade seems to indicate that the low investment rate in the United States was not due to a lack of investment funds for any protracted period. It may accordingly be argued that there were perhaps fewer investment openings there than in western Europe, since the expansion of capacity during the war years had been greater and the introduction of new technologies faster. Moreover, some potential domestic investment by U.S. industries producing for export markets was replaced by investment abroad, aimed at using cheaper labour and gaining easier entry to foreign markets.

It has been argued that defence requirements affected growth adversely by reason not only of their size but also of their instability, fluctuations in government demand for durable goods tending to lead to variation and uncertainty in investment programmes, phases of demand inflation and a reduction, in the long run, in the utilisation of resources. Defence expenditure in the United States advanced by leaps and bounds from \$14.4 milliard in 1950 (5.0 per cent. of the national product) to \$49.3 milliard in 1953 (13.4 per cent.) but fell back to \$40.2 milliard (10.1 per cent.) in 1955. As a proportion of the gross national product, its movements in western Europe between the same dates were from 4.8 to 6.2 and then to 5.0 per cent. of the national product (or, in milliards of dollars, from 6.8 to 12.0 and 11.2), i.e. roughly one-sixth

of the size of the first and main American fluctuation (between 1950 and 1953) and one-third of the size of the following one (between 1953 and 1955). The post-sputnik wave of defence spending was also more pronounced in the United States. These changes do not measure the full destabilising effects of procurement action by the defence departments, since orders tend to be more concentrated than disbursements. Moreover, waves of defence orders, in addition to their primary effects, tend to generate demand for specialised production facilities and thus to accentuate fluctuations in the production of durable goods and in expenditure on plant and equipment. These were, in fact, much wider in the United States than in western Europe during the period 1950-58. An additional factor contributing to such fluctuations was the high variability of the demand for cars. In western Europe capacity in the motor-car industry was generally utilised to the full. In the United States, as car ownership is already so widespread that the expansion in demand is bound to proceed more slowly, total demand has since the 1955 boom undergone considerable fluctuations and fallen short of capacity. In addition, it has been affected by the increasing preference shown by buyers for foreign-produced cars. The position was somewhat similar in the case of domestic appliances and other consumer durables. The strength of the new demand generated in western Europe by economic growth was such as to impart stability to the expansion in total demand for such goods. Total expenditure on consumer durables in the O.E.E.C. area increased smoothly from \$6.3 milliard in 1950 (4.5 per cent. of the national product) to \$14.9 milliard in 1958 (5.4 per cent.), with yearly advances of between \$0.5 milliard (1952) and \$1.4 milliard (1955). In the case of the United States this expenditure component proceeded in waves, expanding by more than \$6 milliard in one year (1955) and undergoing as many annual falls as rises. While obviously automatically correlated with the national product, it nevertheless declined from 8.6 per cent. of the gross national product in 1950 to 6.6 per cent. in 1952; it recovered to 8.1 per cent. in 1955 and fell back to 6.5 per cent. in 1958.

A reflection of the different cyclical sensitivity of the two areas is to be found in the variability of the national product. In the case of the United States the average deviation from the trend line works out, for the years 1950 to 1958, at 2.6 per cent. if current prices are used for gross national product values, or at 2.3 per cent. if constant prices are used. In the case of western Europe the two ratios are 1.6 and 1.0 per cent., which shows that the pauses of 1952-53 and 1958 were merely ripples in a constantly expanding stream of income. In industrial production, however, France had a higher variability than the rest of western Europe — a reminder of the cost of allowing the inflationary movement to gather momentum and then having from time to time suddenly to apply the brakes.

Investment was not the sole determinant of the different growth rates, but it is more susceptible to policy influences than population movements and easier to measure than technological factors. The importance of the population factor is evidenced by a comparison of the growth rates, the

Investment, employment, prices and growth rates in various countries.

Countries	Gross domestic investment		Employment in manufacturing		Prices (gross national product deflators)		Gross national product (in real terms)	
	1950-58	1959	1951-58	1959	1951-58	1959	1951-58	1959
	as a percentage of gross national product		yearly rates of change, in percentages					
Belgium	15.8	17.0	0.2	-4.7	2.6	1.2	2.8	1.5
France	18.3	18.6	0.6	-2.3	6.8	7.2	4.4	2.1
Germany	23.2	24.0	5.1	0.4	3.4	1.7	7.5	5.7
Italy	20.6	21.3	2.1	2.4	2.8	-0.4	5.6	6.6
Netherlands	23.9	24.5	1.4	1.9	3.7	1.2	4.6	5.2
Austria	22.8	22.3	2.2	-0.4	5.9	2.3	6.2	3.9
Denmark	18.8	19.1	0.5	5.1	3.7	4.8	2.3	4.6
Norway	30.6	28.5	0.5	0.0	4.5	1.4	4.0	3.8
Sweden	20.9	20.2	-0.1	-0.6	5.5	0.9	2.8	4.6
United Kingdom	15.2	16.7	0.6	3.0	4.8	0.5	2.1	3.2
United States	17.5	17.9	0.4	4.4	2.7	1.6	2.9	6.8
Japan	27.8	30.0	4.5	8.0	4.4	1.7	7.6	13.0
E.E.C. countries	20.4	.	.	.	4.5	.	5.4	(4.1)
Other O.E.E.C. countries	17.1	.	.	.	5.0	.	2.9	(4.0)
O.E.E.C. countries	19.0	.	.	.	4.7	.	4.3	(4.0)

investment rates and the expansion in the labour force in a number of industrially developed countries during the 1950s. The hypothetical growth line computed from the figures for investment and employment corresponds very closely to the actual growth rates. Significant deviations are to be found only in the case of Norway and the Netherlands, where the actual growth was substantially below what might have been expected. This below-average productivity of investment seems to be attributable to the pattern of investment and changes in factor proportions. In Norway a large part of total investment was directed to branches where the capital/output ratio is high — house-building, power supply, transportation and basic metals production. Moreover, the stagnation in the labour force in manufacturing adversely affected the efficiency of the factor combination, since, in the absence of technological changes, additional inputs of capital alone tend to decrease the capital/output ratio. In the Netherlands a large proportion of investment was in housing and other types of building work, land reclamation and stocks.

The highest rates of expansion were associated with massive transfers of manpower to manufacturing. Between 1950 and 1959 employment in manufacturing expanded by roughly 50 per cent. in Japan and Germany and by 20 per cent. in Italy and Austria. In these same countries the contraction of employment in agriculture was also largest. Between 1950 and 1958 agricultural employment decreased by some 1.2 million units (23 per cent.) in Germany, by almost 2 million (10 per cent.) in Japan and by 600,000 (9 per cent.) in Italy. In Austria total employment in agriculture decreased by 6 per cent. and the number of insured farm employees by nearly 30 per cent. In contrast to the transfer of labour from low to high-productivity sectors characteristic of most western European countries and Japan, the United States experienced a relative expansion in sectors marked by low or slowly

increasing productivity, including government, finance, trade and other services. Within manufacturing itself a large shift occurred from production workers to overhead employment (white-collar workers).

It seems worth while examining to what extent inter-country differences in the rate of growth were related to the structure of industry. The pattern of development of industrial activity in the 1950s is found to have been similar over most of western Europe. Chemicals and engineering expanded most. In a few countries (Italy, Norway, Sweden) steel and other basic metals topped the list; in most others they also ranked high. In the United States development during the 1950s was similar to that in Europe in that chemicals and engineering were the most dynamic sectors; it was different in that steel and other basic metals were among the least dynamic. However, the differences in industrial structure, i.e. the different weights which the

Indexes of industrial production in typical sectors, October 1959.

Countries	Chemicals	Metal products	Mining	Textiles
	Index: 1950 = 100			
France	263	216	173	116
Germany	291	315	140	177
Italy	332	231	267	145
United Kingdom	177	158	102	97
United States	165	159	111	107

most dynamic industries have in total industrial production in the various countries, played only a minor rôle in determining the relative rates of overall expansion. A comparison of the production indexes for the two most expansive and two relatively declining industrial sectors in the three big continental countries with the corresponding indexes for the United States shows clearly that the recent relative advance of the former group was due to across-the-board gains rather than to a more favourable pattern of industry.

The table on page 31 also shows the movement of prices in the various countries. No clear relationship of this movement to growth is revealed by an inspection of the figures or by statistical analysis. An attempt has been made to investigate the existence of such a relationship by taking, for the same years, a wider sample of countries, including non-industrialised ones. The correlation between inflation and growth thus brought out is, if anything, a negative one. It is the relationship between the movement of wages, on the one hand, and the increase in productivity attainable by each country with the supply of manpower, capital and technological skills available to it, on the other hand, which will determine whether the target of full employment can be reached without endangering the value of money. When the basic factors make for high productivity increases, sustained growth is quite compatible with stable or even declining prices. When wage increases exceed possible productivity increases, the full utilisation of resources may be incompatible with price stability, since the shifts from profits to wages may reduce both the means and the incentives to invest.

In the light of what has been said above, the different price movements in individual European countries are easily explained by the considerable differences in the relationship between wage and productivity changes. In countries such as the United Kingdom and Sweden, with a strong labour movement, a high degree of utilisation of human and capital resources at the start of the period and an almost stationary population, inflation was sharper than in Germany and Italy, where labour was less effectively organised, capacity utilisation was lower and the labour supply expanded in consequence of natural and migratory population movements. The experience of other countries, e.g. France and Austria, does not fit entirely into this picture. It would appear that in their case the expansion which occurred was compatible with a lower rate of inflation than they actually had. There were also in a few countries more aspects to the problem of inflation than are covered by the above approach in terms of supply factors (i.e. manpower, savings and technology) and labour policies. In several cases a rôle was played by excess liquidity, carried over into the late 1940s from the war years and acting as a source of deferred inflation, and by a preference for cheap-money policies. But the importance of these factors decreased in the course of time owing to the gradual normalisation of liquidity positions and a universal return to more active monetary control; the approach in terms of the first-mentioned group of factors therefore seems specially fitting to present-day conditions. In stressing the importance of the relationship between wage and productivity increases for the problem of inflation and growth, one should, however, never regard either of the two as being unalterable and adopt the view that if the relationship is unfavourable inflation must be accepted as the price of growth, since both factors can be influenced by policy — a policy of flexible market-orientated allocation of resources, of rewards for inventiveness and of promotion of efficiency through foreign and domestic competition, combined with an educational effort aimed at bringing wage negotiations more into line with basic economic realities.

* * *

In the case of the United States demand inflation, cost inflation and monopoly power all seem to have played a significant rôle in the price rise, although their action was unevenly distributed among the different sectors of production. The factors at work in each branch of activity are discernible in the relative movements of prices, wages, profits and capacity utilisation. In terms both of prices and of wages the capital-goods industries (mainly steel), together with services, are found to have been inflation-leaders, more especially since 1953. The motor-car industry was among the first to introduce automatic cost-of-living allowances. The steel companies negotiated a large "package deal" in 1952. In the 1955-56 boom the two industries committed themselves in long-term contracts to annual wage improvements, thus setting a pattern for other sectors. The inflationary nature of such settlements was reflected in the price movements that followed.

In western Europe the rise in the prices of coal, iron and steel was sharper than in the United States during the Korea boom but it has been

more moderate since 1953. As shown in the table, the percentage changes in steel prices from 1953 to 1959 were: + 42 per cent. in France, + 26 per cent. in the United States, + 9 per cent. in Germany and Belgium, and - 10 per cent. in Italy and the United Kingdom. Over the whole period from 1950 to 1959 U.S. steel prices rose by 66 per cent., compared with a rise of only 24 per cent. in the general price level (as expressed by the gross national product deflator) and one of 16 per cent. in wholesale prices.

Steel prices in relation to the general price level.

Items	Belgium	France	Germany	Italy	United Kingdom	United States
	Index: 1950 = 100					
Wholesale prices: 1959	109	161	124	105	133	116
Gross national product implicit price index: 1958	122	169	129	124	145	124
Steel price index: 1953	129	166	177	112	152	132
1959	139	236*	193	101	136	166
U.S. dollars per long ton						
Average prices of steel in 1959. . .	98.9	106.6	105.9	139.6	117.9	129.0

* In dollars: 168.

For Belgium, France and Germany the relative position of the three indexes is similar to that for the United States, but in the case of Belgium and Germany most of the increase occurred before 1953. In France the prices of basic, and largely exported, products, such as steel, were obviously affected more immediately by the 1957-58 depreciations than the general run of prices, but in terms of dollars the French price in 1959 was little above that in 1953. In the United Kingdom steel lagged behind the general price movement; in Italy, with the lowering of tariffs and the expansion of low-cost capacity, steel prices have since the Korea boom been coming down towards world levels and back to the 1950 level.

As a result of their slower advance since 1953, the prices of steel in the main western European producing countries (except Italy) are substantially lower than U.S. prices. At times, such as the present, when the western European steel industry is working to capacity while the U.S. industry is not, such a pronounced price differential impedes the attainment, through international trade, of greater uniformity in rates of capacity utilisation. To a large extent the divergent country trends in steel prices may be explained in terms of wage and productivity changes. In the pattern of development since 1953, the United States and Italy would seem to represent the two extremes. In the United States wages in the steel industry increased by 31 per cent. between 1953 and 1958 (as against 15 per cent. in manufacturing industry as a whole), while productivity increased by only 5 per cent. (as against 11 per cent. in manufacturing industry). In Italy productivity in the steel sector increased by 100 per cent. from 1953 to 1959 (October), but wages by only 30 per cent. In the steel industries of the remaining European countries the relative changes in nominal wages and productivity were also more favourable than in the United States.

Steel is an important cost component both for machinery and for durable consumer goods, the price developments of which during the 1950s were similar to that for steel. Both for durable consumer goods and for machinery the price increase in western Europe was between two and three times as great as that in the United States from 1950 to 1953 but less than half as great after 1953. Over the whole period prices of consumer durables in western Europe increased less than food and clothing prices, and prices of machinery and equipment less than construction costs. The reverse is true of the United States. A tentative conclusion may be drawn from these comparisons. Productivity increases in the making of durable consumer goods, machinery and equipment would seem to have been larger in western Europe and to have been passed on to the purchasers to a greater extent in the form of absolute or relative price reductions. On the other side, food prices (partly owing to an expansion in distributors' margins) inflated living costs to a greater degree in western Europe than in the United States.

Increasing returns, associated with the swift expansion in demand, have contributed to the favourable price trend for durables in Europe. An additional factor may be found in the pressure of foreign competition — an influence that has been present for some years in western Europe but has only recently come to play a significant rôle in the United States. The share of imports in national expenditure in the western European countries, which has always been much larger than in the United States, expanded further during the 1950s. The increase in the ratio of foreign trade to output was especially marked in the engineering industry, which has itself been growing rapidly. There has thus been an increasing integration of the western European economies through trade in engineering products, which has been reflected in growing specialisation, the falling-into-line of national price levels and the swift propagation of economic fluctuations.

Price indexes, by expenditure groups.

Expenditure groups	Country or area	1950	1956
		Index: 1953 = 100	
Private consumption			
Food	United States	91	106
	O.E.E.C.	85	113
Clothing	United States	94	103
	O.E.E.C.	91	105
Durables	United States	96	107
	O.E.E.C.	85	104
Gross fixed capital formation			
Residential construction	United States	89	110
	O.E.E.C.	60	118
Other construction	United States	85	117
	O.E.E.C.	79	116
Machinery and equipment	United States	90	120
	O.E.E.C.	79	109
Gross national product*	United States	90	112
	O.E.E.C.	83	114

* Inclusive of items not shown separately, i.e. public consumption, changes in stocks and net exports.

Imports of machinery and transport equipment, expressed as a percentage of the gross national product, increased as follows from 1950 to 1959 (January–June): in the Netherlands, from 4.1 to 7.2; in Sweden, from 3.6 to 5.7; in Belgium, from 2.8 to 5.5; in Switzerland, from 2.4 to 5.0; in Italy, from 1.0 to 1.4; in Germany, from 0.2 to 1.2; in France, from 1.1 to 1.2; and in the United Kingdom, from 0.5 to 1.1. All these ratios for 1959 are three or more times as great as that for machinery imports into the United States (0.3). According to an analysis prepared by the National Institute of Economic and Social Research in London, the share of imports in total capital expenditure on machinery and transport equipment during 1958 was as much as 62 per cent. in the Netherlands, 55 per cent. in Belgium and 61 per cent. in Sweden. It was 38 per cent. in Austria and 31 per cent. in Switzerland. The rates for the four larger European countries clustered around 10 per cent. The corresponding ratio for the United States was 3 per cent.

The main conclusion which can be drawn from this analysis of comparative developments in western Europe and the United States during the 1950s is that stability in the development of demand — both overall and in its main components — is conducive to growth. Fluctuations in government purchases, due to political reasons, and changing consumer choices have acted as destabilising factors, both directly and indirectly through their effects on investment demand by business. While the extent of such fluctuations has been moderated by compensatory fiscal policies and by the use of controls over sensitive items of consumer demand, it is doubtful whether they can be fully eliminated, since the improvement in policies is offset by the tendency of consumer choices to be more unstable as they become further removed from the satisfaction of basic needs.

Price stability is likely to reduce cyclical fluctuations in the most sensitive components of demand. It is easier to keep demand to the path traced out by the basic pattern of consumer preferences and by long-term development needs with the aid of stable prices than it is under conditions of slow inflation — and the assumption that the pace of inflation can be held steady is itself a doubtful one. Again, therefore, the problem for the policy-makers is to work towards the establishment of conditions that will render high levels of activity compatible with stable prices. In western Europe such conditions were on the whole attained during the past year, and with its economies working to capacity levels no change of monetary climate could further increase for any length of time or to any appreciable extent the flow of goods from them. In the United States levels of activity are also high, and the solution to the problem of maintaining them under conditions of price stability will probably be facilitated by the newly-awakened realisation of the dangers of cost inflation and an unbalanced payments situation, which is bound to affect, at all levels, decisions bearing upon wage and price formation.

The foregoing analysis also sheds some light on factors of change in the competitive position of western Europe and the United States. The gradual rise in prices from 1953 to 1958, while still slightly faster in overall terms

in western Europe than in the United States, was nevertheless slower for equipment and other durable goods, i.e. in a sector of vital importance to the export trade and the one in which western European exports benefited most from the gradual removal of the disadvantages of inadequate supplies and finance. A sizable proportion of U.S. long-term capital exports is directed to developed countries. Even assuming that the dollars supplied to under-developed countries in the form of military aid, economic grants and capital exports generate an equivalent American export surplus in relation to these countries, there still remains for the United States the problem of balancing its capital exports to developed countries, i.e. of attaining, in the teeth of competition from the industries of these countries, an equivalent export surplus in its transactions with them.

* * *

In 1959 price levels showed, almost everywhere, a marked degree of stability. One of the main factors making for stability was the upswing in labour productivity, which, by providing more room for wage increases, made the problem of wage inflation less acute than usual. The direction of demand and the associated pattern of industrial development during the year did not diverge from the broad pattern for the past decade. A feature common to the United States and western Europe was the expansion in expenditure on residential construction. Steel and motor-cars continued to be problem industries in the United States, while constituting in Europe (together with chemicals) the most dynamic element in production and investment activity. There is even some danger that in the case of the motor-car industry the present wave of investment may exceed what is needed to meet the prospective expansion of demand, since road-building is not keeping pace with the potential growth in traffic and every manufacturer apparently assumes that his share of the market is going to increase. In western Europe other durable consumer goods industries, too, continued to have a favourable effect on price and activity trends, owing to expanding mass production. They can also be expected to give a strong impetus to aggregate demand in the future, since (according to a survey by the National Institute of Economic and Social Research in London) the stocks of such goods per head of the population in western Europe are only, depending on the product in question, between one-quarter and one-sixth as large as those of the United States.

The past year has, however, also been characterised by a marked advance in the production of non-durables, with textiles, in particular, coming out of the doldrums. The swing from consumer to capital goods, which is characteristic of the upward phase of the cycle, is not brought out clearly by the indexes of industrial production by main groups which are presented in the following table. The largest expansion generally occurred in the group of producer goods, which is intermediate between the other two, in that it includes basic materials and semi-processed goods, such as chemicals, steel, cement and oil products, which go into the making of both capital and

Industrial production.

Countries	Categories of goods	1958	1959	1958	1959
		averages		December	
		Index: 1953 = 100			
Belgium	Producer goods	124	128	118	132
	Consumer goods	112	119	114	121
Denmark	Capital goods	128	138	123	141
	Consumer goods	119	130	117	131
France	Metal products	166	176	177	201
	Basic metals	158	159	156	181
	Chemicals	177	195	195	230
	Textiles	117	107	105	128
Germany	Investment goods	177	191	184	216
	Other producer goods	153	172	148	180
	Consumer goods	137	146	134	157
Italy	Investment goods	147	157	149	178
	Producer goods	163	185	180	196
	Consumer goods	126	141	129	153
Norway	Capital goods	129	129	122	127
	Consumer goods	119	126	121	127
Sweden	Capital goods	114	118	119	132
	Consumer goods	113	117	120	132
United Kingdom	Metal products	123	132	129	142
	Basic metals	109	114	96	121
	Chemicals	123	138	126	143
	Textiles	88	90	77	88
	Food	112	115	111	115

consumer goods. The pronounced expansion in this group reflects mainly the growing importance of man-made materials, as well as the boom in motor-car production and building. The information available concerning order-books and investment plans indicates that the swing towards capital goods may become more marked during the current year. The search for sites, manpower and transport facilities for the new plants presents the authorities with both a problem and an opportunity — the problem of reducing the social and economic cost of congestion and the opportunity to relieve underemployment and poverty in less-developed areas by directing industry to them.

The shift to investment is brought out more clearly by the national-account figures. Investment demand, boosted and partly financed by increased profit margins, and export demand came to the fore as the two most dynamic components of total demand in 1959. Export demand has expanded greatly, especially in trade between industrialised countries. Caution is necessary, however, in assessing the rôle of exports in the process of income-generation. In so far as the expansion in exports is matched by additional imports, no net addition to the income flow is created. In terms of income-generation, the relevant factor is obviously the foreign balance. On the other hand, this purely mechanistic approach should not be allowed to obscure the fact that a balanced expansion in foreign trade is an instrument of growth in more basic ways — for instance, by allowing the capacity existing in manufacturing

countries to be applied to the processing of imported raw materials and by promoting efficiency through competition and specialisation.

The review of developments in a number of countries which follows in this chapter and the next brings out a common feature in the phase of "expansion without inflation" which characterised the past year in western Europe. Expansion was reflected in lower unit costs for business and higher revenues for the government. In fact, price-cost relationships and taxation yields moved in such a way as to swell the income streams of the business and government sectors more than proportionately to the growth of personal income. The higher profits were largely kept in the stream of expenditure through increased investment. The rise in revenues reduced the volume of borrowing by the government, and even in cases where the government actually repaid debt to the banking system, the funds withdrawn from circulation re-entered it owing to a readiness to borrow (sometimes induced by falling interest rates) both on the part of the business sector itself and on the part of the personal sector (for the purchase of houses and other durables), and to the achievement of export surpluses.

* * *

The reasons why the utmost caution is called for in all statistical comparisons in time and space are well known. They apply with particular force when the data being compared relate to countries with different social, political and economic structures and at different stages of development, as is the case when the comparison is between the rates of growth of industrially mature countries and those of countries at the "take-off" stage, or between those of countries with western-type economies — notably the United States and western Europe — on the one hand and those of eastern European countries on the other. In the latter comparison a further complication arises out of the difference in the methods of compilation of national income estimates, which in eastern countries exclude the greater part of services.

Rates of growth in eastern Europe.

Countries	1949-53	1954-56	1957-59	1959-65 (plan)
	annual averages, in percentages			
Czechoslovakia	9.2	5.8	6.6	6.9
Eastern Germany	10.3 ¹	5.6	8.0	6.6
Poland	9.6 ²	9.1	6.1	6.4
U.S.S.R.	14.1	11.8	7.7	7.2
Bulgaria	11.4	4.0	14.1	.
Hungary	11.9 ²	5.5 ³	7.0 ⁴	6.0
Rumania	18.5	4.2	11.3	.
Yugoslavia	2.4	5.5	12.7	11.0 ⁵

¹ 1951-53. ² 1950-53. ³ 1955-57. 1958-59. ⁵ 1961-65.

It is true that the eastern European countries have achieved very high rates of economic expansion since the war, as can be seen from the preceding table, in which the countries considered have been arranged in two groups, a northern and a southern one, a division approximately corresponding to that between the countries which immediately after the war were already in a relatively advanced stage of industrialisation (the northern group) and those where agriculture and artisan activities predominated (the southern group). The data in the table suggest the following observations:

1. Within the whole group of eastern European countries the rates of growth vary widely, the averages for the years 1957-59 ranging from 6.1 per cent. (Poland) to 14.1 per cent. (Bulgaria).
2. As a rule the mainly agricultural countries, such as Bulgaria, Rumania and Yugoslavia, in which roughly two-thirds of the active population are engaged in agriculture or forestry, show the highest rates of expansion during the last three years (11 to 14 per cent.), while the rates for the more industrialised countries are considerably lower (6 to 8 per cent.).
3. Once the first five to seven post-war years, with their exceptional rates of growth, had passed, the pace of expansion began to show signs of slowing down, and the plan figures, as far as they are known, seem to take account of this flattening-out. One notable exception to this tendency towards lower rates is Yugoslavia, whose economy had to grapple with serious difficulties in the early post-war years and started to expand rapidly only in 1953 (with setbacks in 1956 and 1958). The slackening of tempo is more evident in the industrialised than in the agricultural countries, which show very high average rates for the last three years. The rapidity of this advance is, it is true, partly explained by the relative slowness of the progress made in these countries during the period 1954-56.

Although rates of growth of more than 10 per cent. per annum are quite rare in the history of the now industrialised countries of the West, rates which by present standards would be considered relatively high have been attained by them in the past: the United States, for instance, achieved for several decades in the nineteenth century an average real rate of growth of around 5 per cent., while Sweden's economy expanded during the period 1869-73, in particular, at an average rate of over 9 per cent. Furthermore, in the present post-war period — just to mention a few examples — western Germany's economy reached an average annual rate of expansion of 11.4 per cent. between 1949 and 1953, Austria's one of 8.8 per cent. during the same period and Japan's one of 7.5 per cent. between 1953 and 1959; and among the less-developed countries mention may be made of Venezuela, Iceland and Greece, which between 1953 and 1958 attained average rates of growth of 10.1, 7.4 and 7.3 per cent. respectively.

The view that the rate of growth of an economy can be, and actually often is, higher in the earlier phases of development and capital accumulation

than at a later stage is supported by such statistical information as is available for a small number of western industrialised countries and seems to be confirmed by recent data concerning eastern European economies. The higher rates which are recorded by the latter are certainly due in part to the determined efforts made to catch up with western living standards, but the achievement of this growth is undoubtedly facilitated by the fact that in these countries the later change-over from a state in which agriculture and handicrafts were predominant to a modern highly industrialised and differentiated economy enables them to take advantage of all the experience gained and the technical improvements made by others in the past; this increases the rate of growth of such countries and lengthens the period during which it can be maintained. A further factor which works nowadays in favour of higher development rates in "take-off" countries is that economic development is now much more stable than it was in the period of early capitalistic industrial expansion, so that the average rate of growth is no longer depressed to the same extent as it was in the early phases of development of the now mature economies.

* * *

The course followed by income and expenditure in the United States during 1959 was strongly affected, from the second quarter onwards, by the expectation and later outbreak of a strike in the steel industry, which started on 15th July and ended on 7th November. Stocks of steel and steel manufactures were accumulated during the second quarter and used up during the second half of the year and, together with additional steel imports and a contraction in exports, they cushioned the impact of the strike on the activity of steel-using industries. Nevertheless, there were in the fourth quarter cases of reduced activity and stoppages. While the dislocations caused by the strike somewhat obscured the basic economic trend, the latter was definitely upwards. The high rate of house-building in the early stages of the upward phase, followed later by a slackening, the swing from stock liquidation to stock rebuilding, the recovery in durable-goods sales and the lag in the expansion of investment in fixed assets were some of the typical features of the upswing. Associated therewith were the expansion in corporate profits, the gradual movement of the Federal budget from a deficit to a surplus and the reduction in the net outflow of capital.

The gross national product increased to \$480 milliard, a rise of 8.6 per cent. in current prices and of 6.8 per cent. in constant prices. All types of income participated in the increase, except that from farming. In the allocation of the national product the most pronounced shift between 1958 and 1959 took place in private domestic investment, which expanded from 12.4 to 14.8 per cent. of the total, owing mainly to the rebuilding of stocks; private consumption went down from 66.3 to 65.0 per cent. and government purchases of goods and services from 21.0 to 20.4 per cent. A net export balance equal

United States: Expenditure and income.*

Items	Increase or decrease (—) in		Amount in 1959
	1958	1959	
	in billions of dollars		
Personal consumption	8.2	18.6	311.6
of which: durable goods	— 2.7	5.4	43.0
Gross private domestic investment	— 11.7	16.2	71.1
of which: residential construction	1.0	4.2	22.2
fixed investment	— 6.9	3.5	44.1
in stocks	— 5.8	8.6	4.8
Government purchases	6.4	5.0	97.6
Total domestic expenditure	2.9	39.8	480.3
Net exports	— 3.7	— 2.0	— 0.8
Gross national product	— 0.8	37.8	479.5

* The definitions of income and expenditure aggregates in the U.S. official sources from which this table and the two following are drawn differ in important respects from those used by the O.E.E.C. in its standardised system of national accounts. The following comparisons, using 1958 data, show the extent of the difference in the two items where it is greatest (in billions of dollars):

	U.S. sources	O.E.E.C. sources
Gross private domestic investment	54.9	
Gross domestic capital formation		69.9
Personal consumption expenditure on durable goods	37.6	
Private consumption of durables		28.9

to 0.3 per cent. of the national product in 1958 was followed by a net import balance of 0.2 per cent. in 1959.

Personal income advanced from \$359.0 milliard in 1958 to \$380.2 milliard in 1959. The proportion of the 1959 total spent was 82 per cent.; 12 per cent. was used for tax payments, and 6 per cent. was saved. The rate of saving declined slightly from that of the previous year, mainly because of heavier purchases of consumer durables. The present U.S. rates of expenditure on consumer durables are still substantially higher than those for western Europe, but there seems to be little difference between the two areas in the ratio of new purchases of consumer durables (as distinct from replacements) to the gross national product. Of total gross private domestic investment amounting to \$71 milliard, two-thirds was financed by business saving and one-third by personal saving. The government sector, while improving its income-expenditure balance by \$7.7 milliard, made no contribution to the financing of private investment, since it still incurred a deficit of \$3 milliard (which, however, is not equivalent to negative saving, since government outlays include expenditure on construction).

The change in the financial position of the business sector was largely governed by the two cyclically most sensitive aggregates in national income and expenditure, namely, profits and variations in stocks. Over nine-tenths of the \$8 milliard increase in gross corporate investment was due to the swing from stock liquidation to stock-building. Corporate profits expanded by \$10.5 milliard; over one-half of the expansion, however, went into tax and dividend payments, leaving only \$4.6 milliard available to finance additional investment. Accordingly, the sector's financial surplus of \$3.7 milliard in 1958 was reduced to one of \$1.7 milliard in 1959. Depreciation allowances,

United States: Corporate investment and saving.

Items	1957	1958	1959
	in milliards of dollars		
Investment			
Plant and equipment (gross)	32.7	26.4	27.0
Stocks	2.7	— 4.4	3.0
Total gross investment	35.4	22.0	30.0
Amortisation allowances (—)	— 18.7	— 19.6	— 20.5
Total net investment	16.7	2.4	9.5
Saving			
Profits after taxes	20.7	18.5	23.9
Dividends paid (—)	— 12.5	— 12.4	— 13.2
Undistributed profits	8.2	6.1	10.7
Financial surplus or deficit (—)	— 8.5	3.7	1.2

the main and most stable internal source of gross investment finance, continued to rise.

The expanding stream of income had the effect of causing the government budget results to move in a counter-cyclical fashion, notwithstanding the rise in expenditure, mainly by local governments. The rapid growth of transfer payments during the three years covered by the table is in line with the long-term trend. Personal income originating in transfer payments (benefits from old-age and survivors' insurance, state unemployment insurance, veterans' allowances, etc.) increased from 3.6 per cent. of the total in 1937-38 to 7.0 per cent. in 1959.

United States: Government revenue and expenditure.

Items	1957			1958			1959		
	Federal	State and local	Total	Federal	State and local	Total	Federal	State and local	Total
	in milliards of dollars								
Revenue									
Taxes	69.7	32.3	102.0	65.9	33.8	99.7	73.9	36.9	110.8
Social insurance contributions	12.2	2.3	14.5	12.5	2.7	15.2	14.9	3.0	17.9
Transfers	—	4.1	4.1	—	5.4	5.4	—	6.5	6.5
Total revenue	81.9	38.7	120.6	78.4	41.9	120.3	88.8	46.4	135.2
Expenditure									
Purchases of goods and services	49.4	36.8	86.2	52.2	40.5	92.7	53.5	44.1	97.6
Transfers and grants	21.5	4.1	25.6	26.6	4.5	31.1	28.3	4.8	33.1
Other expenditure	8.6	— 1.3	7.3	8.6	— 1.5	7.1	9.1	— 1.6	7.5
Total expenditure	79.5	39.6	119.1	87.4	43.5	130.9	90.9	47.3	138.2
Surplus or deficit (—)	2.4	— 1.0	1.4	— 9.1	— 1.6	— 10.7	— 2.1	— 0.9	— 3.0

After showing no increase in 1958, the real gross domestic product of the United Kingdom rose in 1959 by £710 million, or 3 per cent. Industrial production showed an increase of about 6 per cent. over the year as a whole (or almost 10 per cent. if the last quarter of 1959 is compared with the last quarter of 1958), notwithstanding a drop in shipbuilding and mining activity. Output of chemical products and vehicles increased most, but the principal contribution to the rise in the overall index was made by the engineering and electrical goods sector. Employment, which had been falling off during 1958, went up in 1959, but the increase for the year as a whole was very moderate, so that productivity per man in industry rose nearly as much as output (partly because of the greater number of hours worked); consequently, despite the moderate increase in hourly earnings, wholesale and consumer prices remained practically stable and both corporate profits and personal disposable income rose substantially. The latter increased by nearly 5 per cent., providing the basis for an almost equal expansion in consumer expenditure, while the savings/income ratio rose from 7.8 to 8.5 per cent. A large part of the additional expenditure was accounted for by purchases of durable goods, which had shown an upward trend since hire-purchase restrictions were lifted late in 1958.

In real terms public consumption, after having declined, on an average, during the previous five years, rose by 2½ per cent. in 1959, owing to increased spending by the central government on, in particular, defence research and development and by the local authorities on education. Gross fixed investment increased in 1959 by over 5 per cent., i.e. faster than the gross domestic product. Over one-half of the increase took place in the public

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

Items	Increase or decrease (—) in			Amount in 1959
	1954-58 annual average	1958	1959	
	in millions of £ sterling, at 1959 prices			
Sources of demand				
Consumption: private	380	340	570	15,570
public	— 56	— 20	100	3,960
Total	324	320	670	18,530
Investment: gross fixed domestic . .	140	20	190	3,650
in stocks	—	— 160	70	210
Total	140	— 140	260	3,860
Exports of goods and services . . .	154	— 160	110	4,540
Total demand	618	20	1,040	27,930
Available supplies				
Gross domestic product	462	—	710	23,410
Imports of goods and services . . .	156	20	330	4,520
Total supplies	618	20	1,040	27,930

United Kingdom: The budget.

Items	Financial year			
	1958-59	1959-60		1960-61
		Actual	Original estimates	
in millions of £ sterling				
"Above the line"				
Revenue				
Inland revenue	3,016	3,010	2,856	3,273
Customs and excise	2,191	2,282	2,150	2,409
Other revenue	273	338	319	298
Total	5,480	5,630	5,325	5,980
Expenditure				
Civil ¹	2,849	2,998	2,962	3,299
Defence	1,468	1,504	1,533	1,608
Consolidated fund ²	786	742	728	769
Total	5,103	5,244	5,223	5,676
"Above-the-line" surplus	+ 377	+ 386	+ 102	+ 304
"Below the line"				
Net payments				
Loans to local authorities ³	— 52	— 55	— 55	— 56
Loans to the Coal Board and other nationalised industries	411	489	533	465
Other payments	200	266	345	213
Total net "below-the-line" payments	559	700	823	622
Overall deficit (—)	— 182	— 314	— 721	— 318

¹ Including in the 1960-61 estimates a provision of £90 million for the deficit of the British Transport Commission. ² Including sinking-fund payments: £38 million in 1958-59, £39 million in 1959-60 and £40 million in the estimates for 1960-61. ³ A minus sign = repayment.

sector, and specifically in investment in assets other than housing. The contrary was true of private fixed investment. Investment in plant and equipment actually suffered a decline, while that in housing rose by no less than 25 per cent. Investment in stocks, after having fallen in 1958, rose again in 1959. The increase was mainly in stocks of coal and in work in progress in manufacturing industry, while stocks of finished products actually declined. The volume of exports of goods and services rose slightly in 1959, making good part of the loss suffered in 1958. The increase of £1,040 million in total demand in 1959 was met by a £710 million growth in domestic output and by a £330 million rise in the volume of imports of goods and services.

Viewing the aggregate results attained in 1959 against the background of the credit and budget measures taken in the autumn of 1958 and the spring of 1959 respectively, it may be said that the aims then declared of promoting steady expansion while keeping the cost of living stable have been achieved, even though the estimated contribution of budgetary expenditure to total domestic demand did not reach the very high level forecast. At the time the budget was introduced the estimated overall deficit

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

Items	Years	Personal sector	Com-panies	Public corpora-tions	Central govern-ment	Local author-ities	Total ¹
		in millions of £ sterling					
Investible funds							
Gross saving ²	1958	1,100	1,750	170	670	190	4,000
	1959	1,260	1,860	200	600	200	4,000
Depreciation (—)	1958	— 410	— 750	— 380	— 160	— 200	— 1,900
	1959	— 420	— 760	— 390	— 160	— 200	— 1,930
Net saving	1958	690	1,000	— 210	510	— 10	2,100
	1959	840	1,100	— 190	440	—	2,090
Uses of investible funds							
Net domestic capital formation (—) .	1958	— 300	— 690	— 340	— 90	— 340	— 1,760
	1959	— 410	— 690	— 380	— 90	— 360	— 1,930
Financial surplus or deficit (—) ³ .	1958	390	310	— 550	420	— 350	350 ⁴
	1959	430	410	— 570	350	— 360	150 ⁴

¹ Including a residual error of +£120 million in 1958 and —£120 million in 1959; items do not add up to totals owing to rounding. ² Adjusted to include provision for stock appreciation, capital transfers, taxes on capital and the 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).

for the financial year 1959-60 was £721 million. Owing, however, to a substantial improvement in the "above-the-line" surplus and a smaller deficit "below the line", the actual accounts closed with an overall deficit of £314 million — i.e. less than one-half the amount estimated but nearly double the figure for the previous financial year. In the budget estimates for 1960-61 the overall deficit is at nearly the same level as the results for 1959-60.

On a national-income basis (by calendar years and in current values) total gross saving, at £4,000 million, was the same in 1959 as in 1958, but as a proportion of the gross national product it declined from 20 to 19 per cent. Total gross domestic investment rose by over £200 million and there was a decrease in net investment abroad from the very high figure of £350 million reached in 1958 to £150 million in 1959. When allowances are made for depreciation, it is found that the net resources available to the personal and company sectors together for net investment in real assets or in net financial claims increased in 1959 by some £250 million (owing to the size of the residual error in the years 1958 and 1959 and its change-over from a positive to a negative amount — see footnote to the table — considerable caution should be exercised in interpreting these figures). On the other hand, the net available funds of the public corporations, the central government and the local authorities together showed a modest decline, and as the combined domestic investments of these sectors increased in 1959 their net financial deficit rose by £100 million to nearly £600 million. In the private sectors the increase in gross saving by companies was almost wholly reflected in a larger financial surplus, while the personal sector used most of the rise in its saving to invest in real assets.

The various measures of financial rehabilitation applied in France in 1958 and 1959 had an influence on all sectors of the economy. The spectre of a never-ending price inflation and of a breakdown of the productive process owing to a whittling-away of the necessary external resources has been dispelled without the remedial action having caused any recession worth mentioning, its only adverse effect having been a temporary slowing-down of the rate of growth.

In fact, both in 1958 and in 1959 the real gross national product continued to expand and in the latter year it amounted to NFF 258 milliard. Industrial production, after declining slightly during the twelve-month period from the second quarter of 1958 to the first quarter of 1959, swung upwards and for 1959 as a whole its level was more than 6 per cent. above that of the previous year. This expansion was obtained more by an increase in hours worked than by new additions to the labour force, output per worker having thus risen substantially. Almost the whole of the addition to workers' earnings was, however, absorbed by the rise in consumer prices, so that, in real terms, personal consumption rose in 1959 by less than 1 per cent.

Public consumption had fallen in 1958, but in 1959 it rose by NFF 1,000 million, i.e. by nearly 3 per cent., so that total consumer demand underwent a shift of NFF 3,600 million. A similar shift occurred in investment expenditure, which, after having risen by NFF 1,300 million in 1958, fell by NFF 2,400 million in 1959, the reversal being entirely attributable to opposite movements in the volume of stock accumulation. There was scarcely any change in gross fixed investment and what little increase there was occurred in the public sector. The decline in stock accumulation influenced the volume of

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

Items	Increase or decrease (—) in			Amount in 1959
	1954-58 annual average	1958	1959	
in millions of new French francs, at 1959 prices				
Sources of demand				
Consumption: private	6,600	400	1,600	170,400
public	900	— 1,400	1,000	36,400
Total	7,500	— 1,000	2,600	206,800
Investment: gross fixed domestic . .	3,100	700	200	45,700
in stocks	700	600	— 2,600	2,300
Total	3,800	1,300	— 2,400	48,000
Exports of goods and services . . .	1,600	1,300	4,000	38,700
Total demand	12,900	1,600	4,200	293,500
Available supplies				
Gross national product	11,300	3,200	5,300	257,900
Imports of goods and services . . .	1,600	— 1,600	— 1,100	35,600
Total supplies	12,900	1,600	4,200	293,500

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

Items	Years	House-	Enter-	Public	Financial	Total
		holds	prises	authorities	institutions ¹	
in millions of new French francs						
Net saving ²	1958	9,860	7,280	4,300	2,870	24,330
	1959	11,740	6,590	5,360	2,830	26,520
Net investment (—) . . .	1958	— 5,070	— 18,970	— 4,490	— 90	— 28,620
	1959	— 4,900	— 15,560	— 4,980	— 100	— 25,540
Financial surplus or deficit (—) . . .	1958	4,810	— 11,690	— 190	2,760	— 4,290 ³
	1959	6,840	— 6,970	380	2,730	+ 980 ³

¹ Bank of France, banks, public credit institutions and insurance companies. ² Including net capital transfers. ³ Increase in liabilities or decrease in claims vis-à-vis foreign countries and the rest of the French franc area.

imports, which decreased by NFF 1,100 million, while exports — assisted by the more realistic exchange rate and the containment of domestic demand — rose much more than in 1958 and earned more than enough to pay for France's imports.

The breakdown by sectors of saving and investment shows that the restoration of monetary confidence led to the expected results. Households saved most of their additional nominal income and used it to acquire financial claims, the volume of direct investment (chiefly in houses) having declined somewhat. The net saving of enterprises is estimated to have decreased slightly, but their net investment fell even more, so that their financial deficit was reduced from NFF 11.7 to 9.0 milliard. The public authorities, for their part, swung over from a small financial deficit in 1958 to a surplus in 1959, which meant that they more than covered their current and investment outlay out of current revenue. In addition, the Treasury continued to borrow substantially in order to finance its lending programmes for the nationalised industries, the private economy and the overseas territories (see Chapter III).

The 1959 results of the central-government budget were fairly close to the original estimates. Preliminary data show a deficit of NFF 6,300 million, resulting from an increase of about 14 per cent. in both expenditure and revenue over the previous year's levels. It is worthy of mention, however, that overall investment expenditure rose proportionately more than did either current expenditure or the deficit.

France: Government finances.

Items	1958	1959 preliminary	1960 estimates
	in millions of new French francs		
Expenditure			
Civil	34,900	39,450	40,050
Defence	15,100	16,150	16,550
Investments and war damage	6,600	8,250	7,250
Special accounts and other items . .	900	1,750	1,800
Total	57,500	65,600	65,650
Revenue	51,850	59,300	59,400
Deficit (—)	— 5,650	— 6,300	— 6,250

The estimates for 1960 are practically the same as the results for 1959 for each of the three main components of the budget. The unchanged estimate for total expenditure is, however, the result of an increase in current items and a cut in investments — the latter representing a reversal of the tendency in the last few years.

At DM 244.4 milliard, the gross national product of Germany (not including the Saar and Berlin) in 1959 exceeded that in 1958 by 7.5 per cent. In real terms the increase was 5.7 per cent., whereas in 1958 it was only 2.8 per cent. As in other European countries, expansion revived early in the spring of 1959 under the influence of growing domestic and foreign demand on the part of both consumers and investors.

For 1959 as a whole industrial production increased by 7.7 per cent., compared with only 3.0 per cent. in 1958, but from year-end to year-end there was a rise of 14 per cent. The growth in the output of the producer and capital-goods industries (the latter being taken to include the motor-car industry) was well above the average, while at the other end of the scale textile production increased by less than the average and mining output (owing to the coal situation) actually declined. After falling for two years in succession, house-building made an impressive recovery in 1959, the number of dwellings completed, at 555,000 units, having almost reached the record level of 1956 — indeed, if the comparison is based on the number of rooms thus made available, the 1956 level was exceeded. Average total employment rose considerably more in 1959 than in the previous year. In the industrial working force, however, the increase was negligible and was offset by a further decline in working hours, though a smaller one than in the previous year. Productivity per employed worker registered an increase which comes to over 4 per cent. for the whole economy and nearly 8 per cent. for industry alone. As a result of this rise and partly thanks to a further decline in import prices, industrial wage rates went up by about 5 per cent. — on an annual basis — without causing an increase in prices. A different picture would be presented if the situation as it developed during 1959 were examined, as the increasingly full employment of labour and plant, the poor harvest and the growing pressure of domestic and foreign demand gave rise to certain strains — particularly in the field of labour and commodity prices.

Among the various items of total demand, consumption is generally the most stable as well as the largest, both when expressed in current or (as is done in the following table) in constant prices. Thus in Germany in 1959 it accounted for nearly three-fifths of total demand and a 1 per cent. increase in it should add between DM 1.5 and 2 milliard to total demand. The high actual levels of consumption and the relative stability of its rate of growth are shown particularly clearly in the case of private consumption. This rose by DM 6.4 milliard in 1959, i.e. more than in 1958 but less than during the five years from 1954 to 1958; the increase, however, still represented nearly one-half of the real growth in the total gross national product.

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

Items	Increase or decrease (—) in			Amount in 1959
	1954-58 annual average	1958	1959	
in milliards of Deutsche Mark, at 1959 prices				
Sources of demand				
Consumption: private	7.6	5.8	6.4	142.9
public	1.1	2.0	3.0	33.8
Total	6.7	7.8	9.4	176.7
Investment: gross fixed domestic	3.6	2.5	5.3	56.2
In stocks	0.2	— 2.2	— 0.6	2.5
Total	3.8	0.3	4.7	58.7
Exports of goods and services	5.6	2.6	7.4	62.0
Total demand	18.0	10.7	21.5	297.4
Available supplies				
Gross national product	12.9	6.5	13.7	244.4
Imports of goods and services	5.1	4.2	7.8	53.0
Total supplies	18.0	10.7	21.5	297.4

Public consumption rose (mainly because of higher defence expenditure, including that on armament imports) by DM 3 milliard, or nearly 10 per cent., over the 1958 level, and its share in the gross national product also went up.

Germany: Cash results of the Federal budget.

Items	Calendar year			
	1956	1957	1958	1959
in millions of Deutsche Mark				
Revenue	28,450	29,500	31,400	34,000
Expenditure	27,250	31,850	31,800	39,300
Surplus or deficit (—)	1,200	— 2,350	— 400	— 5,300

The actual budget outlay of the Federal Government for the calendar year 1959 increased by DM 7.5 milliard to DM 39.3 milliard; these figures are higher than those which appear in the national accounts because they include transfer and investment payments. The cash results for 1959 showed a deficit of DM 5.3 milliard, compared with one of only DM 0.4 milliard in 1958. Besides reflecting higher defence costs (partly in foreign currencies), this was also due to a number of special non-recurring payments abroad (see Chapter V) and to increased public investment.

Gross fixed domestic investment, in constant prices, rose by DM 5.3 milliard in 1959, or by more than twice as much as in the previous year;

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

Items	Years	House-	Enterprises	Public	Total
		holds ¹		authorities	
in milliards of Deutsche Mark					
Investible funds					
Gross saving ²	1958	13.5	33.9	11.6	59.0
	1959	15.0	33.6	15.5	64.1
Depreciation (—)	1958	—	— 19.0	— 0.8	— 19.8
	1959	—	— 19.8	— 0.9	— 20.7
Net saving	1958	13.5	14.9	10.8	39.2
	1959	15.0	13.8	14.6	43.4
Uses of investible funds					
Net domestic					
capital formation (—)	1958	—	— 27.0	— 6.3	— 33.3
	1959	—	— 30.4	— 7.6	— 38.0
Financial surplus or					
deficit (—)	1958	13.5	— 12.1	4.5	5.9 ³
	1959	15.0	— 16.6	7.0	5.4 ³

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 Including net capital transfers. ³ Net foreign investment (i.e. balance of payments on current account minus unilateral transfers to Berlin and foreign countries).

the increase was nearly 50 per cent. above the average for 1954–58. The relative increase in 1959 over 1958 exceeded 10 per cent. Investment in stocks — at DM 2.5 milliard — remained below the 1958 level, chiefly because of the big decline in the first part of the year, while during the second part stock accumulation showed a marked recovery. Exports of goods and services in 1959 benefited from the growth in foreign demand, following its slackening in 1958, and rose by DM 7.4 milliard (at 1959 prices), or over 13 per cent. While nearly all industries participated in the export boom, foreign sales did not, on an average, rise more than domestic sales, so that industry's export ratio (15 per cent. in 1958) remained unchanged. The net contribution of foreign trade to Germany's gross national product (i.e. the difference between exports and imports of goods and services), at DM 9 milliard, remained the same as in 1958.

Households and public authorities participated in the increase in saving in 1959, which was totally absorbed by the expansion of domestic investment, private and public, the increase in the financial surplus of households and public authorities being more than offset by the rise in the deficit of enterprises. The public authorities' financial surplus was increased notwithstanding higher investment expenditure, so that their behaviour continued to allow the financing of the acquisition of net claims on the rest of the world without correspondingly increasing domestic liquidity.

Economic activity in the Netherlands picked up rapidly early in 1959, as is illustrated by the overall index of industrial production, which at the end of June and December was 8 and 12½ per cent. respectively above its level in the corresponding period of 1958. Expansion was greatest in the

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

Items	Increase or decrease (—) in			Amount in 1959
	1954-58 annual average	1958	1959	
In millions of florins, at 1959 prices				
Sources of demand				
Consumption: private	860	210	730	22,080
public	100	— 160	— 10	5,270
Total	960	50	720	27,350
Investment: gross fixed domestic . .	380	— 810	600	8,720
in stocks	90	— 800	480	730
Total	470	— 1,610	1,080	9,450
Exports of goods and services . . .	1,160	1,290	2,040	19,990
Total demand	2,590	— 270	3,840	56,790
Available supplies				
Gross national product	1,470	550	1,870	36,640
Imports of goods and services . . .	1,120	— 820	1,970	18,150
Total supplies	2,590	— 270	3,840	56,790

metal-goods industries and least in the food and beverages industry. The level of employment rose and the number of vacancies exceeded that of unemployed persons from May onwards, while in certain branches of activity, especially the metal-goods industries, there again appeared shortages of labour, both skilled and unskilled. The number of persons employed in industry, however, went up much less than output, so that labour productivity rose by as much as 8 per cent., while workers' wages went up by around 2 per cent., leaving a large margin for improvement in 1960-61 under the new wage-determination arrangements agreed upon in the second half of 1959.

The gross national product rose in 1959 by about 6 per cent. in current values and 5 per cent. in real terms. This rate of growth is three times as high as that in 1958 and above the average rate for the five-year period 1954-58.

Consumption demand increased in 1959 but its contribution to the expansion in total demand was only small, both absolutely and relatively, and the increase was concentrated in the private sector (taking primarily the form of an expansion in purchases of consumer durables), while public consumption was, if anything, somewhat reduced. The spurt in economic activity had its main sources in investment and export demand. After registering a fall of Fl. 1.6 milliard in 1958 (in which both fixed investment and stock accumulation participated equally), in 1959 additions to stocks and gross fixed investment together exceeded the figure for the previous year by nearly Fl. 1.1 milliard. Most of the increase in fixed investment was shared between producers' equipment goods and construction other than housing. Exports of goods and services registered an even greater increase in absolute

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

Items	Years	Government		Institutional investors ¹	Private sector	Total
		Central	Local			
In millions of florins						
Net saving ²	1958	490	- 1,040	2,470	4,570	6,490
	1959	1,090	- 970	2,900	4,890	7,910
Net investment (-)	1958	- 410	- 680	-	- 3,810	- 4,900
	1959	- 470	- 800	-	- 4,800	- 6,070
Financial surplus or deficit (-) on a transactions basis	1958	80	- 1,720	2,470	760	1,590
	1959	620	- 1,770	2,900	90	1,840

¹ Includes the savings banks, life assurance companies and pension and social insurance funds. ² Including net capital transfers, except those to foreign countries and, in 1958, a debt repayment by local authorities to the central government.

terms, while the percentage rise was about the same as that in investment. The total of exports, at Fl. 20 milliard, was well over half the amount of the gross national product. The increase of Fl. 3.8 milliard in total demand in 1959 had as counterpart a rise of 5 per cent. in the gross national product and one of 12 per cent. in imports. The national accounts show that the already substantial 1958 export surplus was exceeded in 1959. The fact that price stability was maintained despite expanding business activity and the increase in the export surplus is related to the upsurge in domestic saving.

A large contribution to the growth in savings in 1959 was made by the government sector, the local authorities having somewhat reduced their dissaving (including capital transfers) and the central government having more than doubled its net saving. The improvement in the government sector amounted altogether to Fl. 670 million and the additional saving of the private sector (including savings channelled through the institutional investors) to Fl. 750 million, so that the aggregate increase over the 1958 level was Fl. 1,420 million. Since domestic investment rose somewhat less than savings the overall financial surplus of the Netherlands economy was larger in 1959 than in 1958.

In Italy the upswing in economic activity gathered momentum during the second half of the year and is still continuing. For the year as a whole the national product expanded by 6.6 per cent. in real terms, and industrial production by 11 per cent. Industrial production has increased at a monthly rate of 2 per cent. since July 1959 and its level in the early spring of 1960 was over 20 per cent. above that of a year earlier. Agricultural production again rose by 3 per cent. in 1959, but whereas in industry the advance was all along the line, including the less dynamic sectors of non-durable consumer goods production, in agriculture the expansion was accompanied by a marked shift from bread cereals to feed grains, dairy products, fruit and vegetables. This development is attributable to a change in the pattern of domestic demand towards higher-quality foods and to growing foreign demand for fruit and vegetables.

Italy: The national product and its uses,
1958 and 1959
(in real terms).

Items	Increase or decrease (→) in		Amount in 1959
	1958	1959	
	<i>in milliards of lire, at 1959 prices</i>		
Consumption	470	560	12,770
Investment	70	300	3,830
Exports	110	390	2,740
Imports (increase →) .	20	— 200	— 2,430
Gross national product	670	1,050	16,910

The price and balance-of-payments movements during the year indicate that the expansion in aggregate monetary demand did not exceed that in the flow of production. The gross national product implicit price index fell slightly (— 0.4 per cent.). Substantial declines in the prices of the products of agriculture (— 4.4 per cent.), manufacturing (— 1.7 per cent.)

and mining (— 5.6 per cent.) were to a large extent cancelled out by the increase in rents, public utility tariffs and other tertiary activity prices. The rise in wage rates amounted to only 2 per cent. The favourable trend in the cost of foodstuffs due to the large crop in 1958 and 1959 made for wage stability, which, coupled with marked productivity increases, again played an essential part in preventing inflation. Wages and salaries paid to employees are estimated to have increased over the previous year by 6.4 per cent., i.e. roughly in line with the national income, the rise being due at least as much to an increase in employment (estimated at between 300,000 and 400,000 units) as to the improvement in wage rates.

The acceleration in the pace of development was associated with the typical shift from private consumption to domestic investment, the former having expanded by 4.1 per cent. (4.8 at constant prices) and the latter by 7.0 per cent. (8.4 at constant prices) over the 1958 figures. As in other western European countries, the steel, motor-car and chemical industries are perhaps the branches in which investment activity is most lively; however, a revival of investment is also noticeable in agriculture.

On top of the expansion of domestic investment there was, for the second year in succession, an external payments surplus, which in fact exceeded that of 1958. The surplus on goods and services account, in current values, improved from Lit. 130 milliard in 1958 to Lit. 300 milliard in 1959. The surplus on account of goods, services and unilateral transfers (Lit. 425 milliard) was 2.5 per cent. of the national product. When this is added to a domestic investment rate of 22.6 per cent., the gross rate of wealth formation works out at 25.1 per cent. of the national product and the net rate at 15.8 per cent., depreciation accounting for 9.3 per cent.

The public sector did not contribute to the expansion of the volume of national saving. The central government's outlay on investment increased by Lit. 112 milliard (from Lit. 572 milliard in 1958 to Lit. 684 milliard in 1959), but the overall cash deficit rose by Lit. 176 milliard to Lit. 307 milliard, so that central government saving declined by Lit. 64 milliard, from Lit. 441 to 377 milliard. For the whole government sector (central and local) the deficit increased roughly in line with investment expenditure, so that the sector's saving was unchanged. In the near future the strong expansion under way

in the volume of both current and investment expenditure by the government will be matched, to some extent at least, by the rise in revenue brought about by prosperity and improvements in tax assessment; present forecasts, however, predict a rise in the deficit, partly due to the delayed effect of larger appropriations voted in 1958 and 1959.

All the five countries included in the following table (i.e. Austria and the four northern countries) suffered a marked decline in the real rate of growth of their economies between 1957 and 1958; indeed, the gross national product of Finland actually fell. This situation was sharply reversed in 1959, when the real increase in the gross national product in these countries varied from a minimum of 4 per cent. in the case of Austria to a maximum of 7 per cent. in the case of Denmark.

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

Increase or decrease (—) in	Years	Austria	Denmark	Finland ¹	Norway	Sweden
		in millions of national currency units, at 1959 prices				
Sources of demand						
Consumption: private	1958	3,200	1,030	— 24.0	— 50	850
	1959	4,100	1,900	46.2	710	1,120
public	1958	600	400	3.0	150	310
	1959	700	150	10.8	180	520
Total	1958	3,800	1,430	— 21.0	100	1,160
	1959	4,800	2,050	57.0	890	1,640
Investment: gross fixed	1958	1,000	460	— 9.0 ²	650	1,110
	1959	1,200	970	39.8 ²	— 350	1,170
in stocks	1958	100	— 770	.	— 500	— 1,230
	1959	— 400	500	.	230	— 490
Total	1958	1,100	— 310	— 9.0	150	— 120
	1959	800	1,470	39.8	— 120	680
Exports of goods and services . .	1958	— 200	470	— 5.0	300	— 220
	1959	3,500	640	39.0	1,070	670
Total demand . . .	1958	4,700	1,590	— 35.0	550	820
	1959	9,100	4,160	135.8	1,840	2,990
Available supplies						
Gross national product	1958	4,100	1,730	— 6.0	230	580
	1959	5,000	2,700	82.0	1,420	2,750
Imports of goods and services . .	1958	600	— 140	— 29.0	320	240
	1959	4,100	1,460	53.8	420	240
Total supplies . . .	1958	4,700	1,590	— 35.0	550	820
	1959	9,100	4,160	135.8	1,840	2,990
Amount of gross national product	1959	134,600	40,600	1,363.0	33,800	62,800

¹ Totals in milliards of Finnish markkas, deflated by the average of the cost-of-living and wholesale-price indexes and by the indexes of export and import prices. ² Including changes in stocks, which are not shown separately in the Finnish national accounts.

Total consumption also rose more than in the previous year in all five countries, but the influence of this factor on total demand was particularly noticeable in Norway and even more in Finland. Total investment seems to have developed quite differently in the various countries. In Austria it rose less in 1959 than in 1958 (because of an actual unloading of stocks) and in Norway it even declined (the decline concerned only fixed investment in ships). In Denmark, Finland and Sweden, where total investments had in 1958 fallen below the previous year's level, in 1959 the additional investment demand played an important rôle in the revival of economic activity. External demand also contributed to this revival in all the five countries, but in different proportions. It made the largest relative contribution in Finland and Norway.

The national-accounts data of Yugoslavia can be presented in the same condensed form as has been used for the countries examined in the preceding pages. The social product, which had declined by 2 per cent. in 1958 owing

Yugoslavia: Factors of expansion and contraction
(In real terms).

Items	Increase or decrease (→) in		Amount in 1959
	1958	1959	
in milliards of dinars, at 1959 prices			
Sources of domestic demand			
Consumption: personal	50	140	1,220
public	— 10	20	270
Total	40	160	1,490
Investment: gross fixed	50	170	770
in stocks	— 170	50	230
Total	— 120	220	1,000
Total domestic demand . .	— 80	380	2,490
Available supplies			
Social product	— 40	360	2,370
Import surplus	— 10	— 30	90
Errors and omissions	— 30	50	30
Total supplies	— 80	380	2,490

to a poor harvest that reduced agricultural output by 13 per cent., shot up by no less than 18 per cent. in 1959, when the favourable weather conditions, plus the effects of large and increasing investments, led to a rise of 30 per cent. in agricultural production (which accounts for 30 per cent. of the social product), while industrial output expanded by 13 per cent. Total consumption — though its increase was four times as large as in 1958 — rose relatively much less than investment, which, at Din. 1,000 milliard, represents 42 per cent. of the social product (or some 38 per cent. if this were increased by, say, 10 per cent. in order to make up for the fact that personal services

Yugoslavia: Saving, investment and financial surplus or deficit (—),
by sectors.

Items	Years	House- holds	Socialist enterprises	Investment funds	Govern- ment	Other	Total
Saving	1958	77	267	315	98	— 46	711
	1959	155	305	356	111	23	950
Investment (—)	1958	— 45	— 597	—	— 49	— 69	— 759
	1959	— 123	— 736	—	— 70	— 70	— 999
Financial surplus or deficit (—)	1958	32	— 330	315	49	— 114	— 48*
	1959	32	— 431	356	41	— 47	— 49*

* Change in net claims on foreign countries.

are excluded). The import surplus was reduced, because exports — especially of machinery and transport equipment — showed a substantial rise, while imports were kept at their previous level.

In 1959 all sectors contributed to the rise in savings and investments, socialist enterprises and investment funds remaining by far the largest suppliers of savings. In relative terms, however, the increase in the saving and investments of the household sector (which includes private enterprises) was greater.

* * *

In retrospect and seen as a whole, 1959 was for the industrialised countries a year of sustained growth accompanied by price stability. By and large, the real rise in gross national products was roughly 4 to 5 per cent., and in the few countries in which growth rates were much below the average special and temporary influences were at work. Expansion was generally supported by increases in consumer demand; the latter, however, rose proportionately less than incomes, thus leaving more resources available to meet the greatly increased investment demand which, in the course of 1959, superimposed itself on the growth in both consumer and external demand. The greater integration of national economies evidenced by the rising import/income ratios helped, among other things, to prevent the development of sectoral bottlenecks and, partly as a consequence of this, the occurrence of price increases of an inflationary character.

The analysis carried out in this chapter has been mostly based on year-to-year changes. The results thus obtained clearly understate the extent of the expansionary spurt, which, once it had begun, gathered momentum from quarter to quarter, so that in many cases the advance as measured by comparing end-of-year data is almost double that for the whole of 1959 over the whole of 1958. The accelerated upward movement of 1959 cannot be expected to continue throughout 1960. It seems more likely that the rate of expansion will slow down somewhat in the course of the year; at the same time, however, it would appear reasonable to assume that the rate of growth for 1960 as a whole will not be lower than that attained in 1959.

III. Money, Credit and Capital Markets.

The nature of the forces contributing to economic expansion in 1959 was clearly reflected in the evolving pattern of credit demands and in the changing liquidity positions of different economic sectors. Both in the United States and in most of the countries of western Europe the dynamic elements of demand lay principally in increased expenditure on durable consumer goods, housing and construction (public and private), exports, and business inventories, in various combinations. Viewed from the angle of consumer behaviour, savings in financial form appear to have risen more than proportionately to the increase in disposable income, but there was at the same time an exceptional increase in borrowing to finance the purchase of housing and durable consumer goods. In the company sector the typical change, characteristic of practically all countries in the early phase of expansion, was an appreciable rise in profits, accompanied by moderate inventory accumulation and a distinct lag in the recovery of fixed capital investment. The increased flow of internal funds, combined with the easy availability of bank credit and of capital-market funds, enabled companies significantly to augment their holdings of liquid assets for the second consecutive year and thus to lay the financial basis for a possibly substantial growth in fixed investment outlays, which already seemed to be in progress in late 1959 and early 1960.

These developments were associated in 1959 with a marked rise in borrowing and lending activity. In the United States, the expansion of private credit demands closely resembled, in both pattern and degree, that of 1955, the corresponding year of the preceding economic upswing. In contrast to 1955, however, when the Federal Government's net borrowing needs were negligible, in 1959 heavy governmental financing requirements were superimposed upon the sharply increased credit demands of other sectors. In most western European countries, total credit activity also advanced remarkably. But while there were distinct similarities in the development of private credit demands in the United States and in the countries of western Europe, an equally sharp contrast between the two areas was to be seen in the composition of the financial assets acquired by the lenders and hence in the channels by which credit was passed from lender to borrower. In the United States the tight check kept on bank reserves by the monetary authorities, combined with the effect of sharply rising interest rates in attracting funds into non-bank channels, caused the bulk of credit demands to be satisfied outside the banking system and limited the growth in the money supply to negligible proportions. In most western European countries, on the other hand, the expansion in bank deposits was unusually large, owing, in varying degrees, to a continued influx of foreign exchange reserves, a revival and subsequent acceleration in private demand for bank advances and, in certain cases, to some bank financing of central-government cash deficits. The money supply (i.e. currency and sight deposits) not only increased in most countries in relation to gross national product but also showed in the majority of them a greater

Money supply and gross national product.

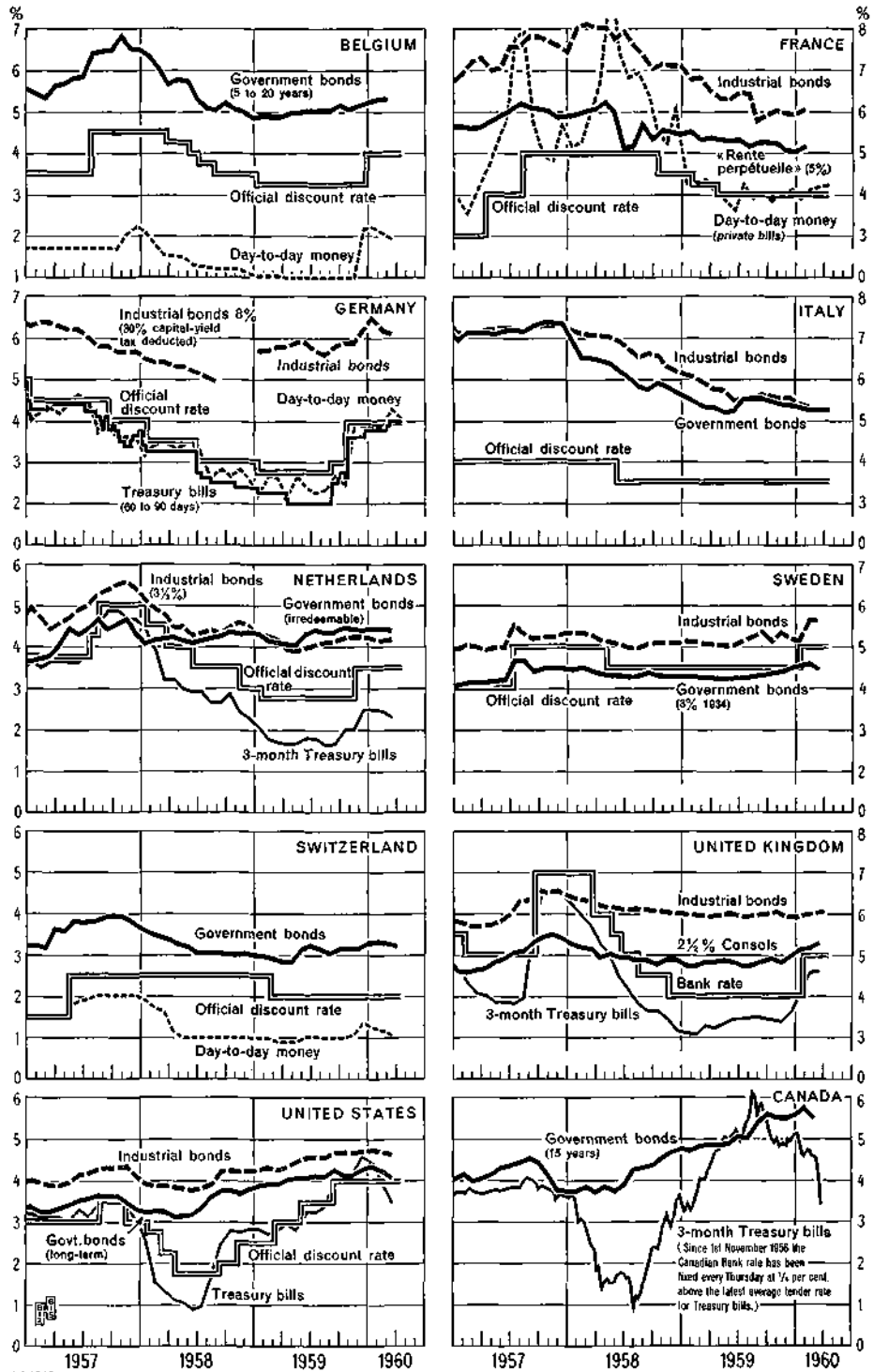
Countries	Years	Money supply		Gross national product (at market prices)	Money supply as a percentage of gross national product
		Total	Of which currency		
in millions of national currency units					
Austria (schillings)	1957	31,490	14,300	121,800	25.8
	1958	34,440	15,660	126,700	27.2
	1959	38,270	16,760	134,600	28.4
Belgium (francs)	1957	196,640	114,030	577,900	34.0
	1958	202,000	117,300	577,900	35.0
	1959	210,570	119,600	590,000 ¹	35.7
Denmark (kroner)	1957	7,970	2,220	35,480	22.5
	1958	8,700	2,360	37,060	23.5
	1959	9,910	2,560	40,600	24.4
Finland (markkas, in milliards)	1957	104	50	1,202	8.6
	1958	112	53	1,277	8.8
	1959	129	57	1,363	9.5
France (new francs)	1957	67,290	32,510	207,400	32.4
	1958	71,650	34,350	235,700	30.4
	1959	78,300	34,800	257,900	30.4
Germany (Deutsche Mark) ²	1957	34,330	15,790	213,600	16.1
	1958	38,680	17,360	227,300	17.0
	1959	43,840	18,640	244,400	17.9
Italy (lire, in milliards)	1957	4,810	1,900	14,960	32.1
	1958	5,210	2,030	15,920	32.7
	1959	5,930	2,220	16,910	35.1
Netherlands (florins)	1957	9,090	4,260	35,390	25.7
	1958	9,490	4,390	36,450	26.0
	1959	10,370	4,540	38,640	26.8
Norway (kroner)	1957	6,200	3,160	31,480	19.7
	1958	6,210	3,170	31,760	19.5
	1959	6,530	3,330	33,580	19.4
Sweden (kronor)	1957	11,410	5,490	57,120	20.0
	1958	11,520	5,590	59,520	19.4
	1959	12,040	5,740	62,830	19.2
Switzerland (francs)	1957	14,430	6,010	31,470	45.9
	1958	15,320	6,080	32,650	46.9
	1959	16,730	6,290	34,000 ¹	49.2
United Kingdom (pounds)	1957	5,520	1,840	21,860	25.2
	1958	5,440	1,900	22,790	23.9
	1959	5,700	1,970	23,630	24.1
United States (dollars)	1957	134,550	27,770	442,500	30.4
	1958	136,140	27,890	441,700	30.8
	1959	140,450	28,310	479,500	29.3

¹ Unofficial estimate. ² Including sight deposits of public authorities.
 Note: The figures for money supply (notes, coins and demand deposits) are monthly averages for the year.

relative growth in 1959 than in 1958. The degree of preference shown for holding financial assets in the form of bank deposits was to some extent attributable to the appreciable fall that had earlier occurred in yields on fixed-interest-bearing securities and Treasury bills, both in absolute terms and in relation to the stickier deposit rates prevailing in most countries.

The trend of interest rates in western European countries over the past two years or so has been conditioned, above all, by the exceptionally large influx

Short and long-term interest rates.



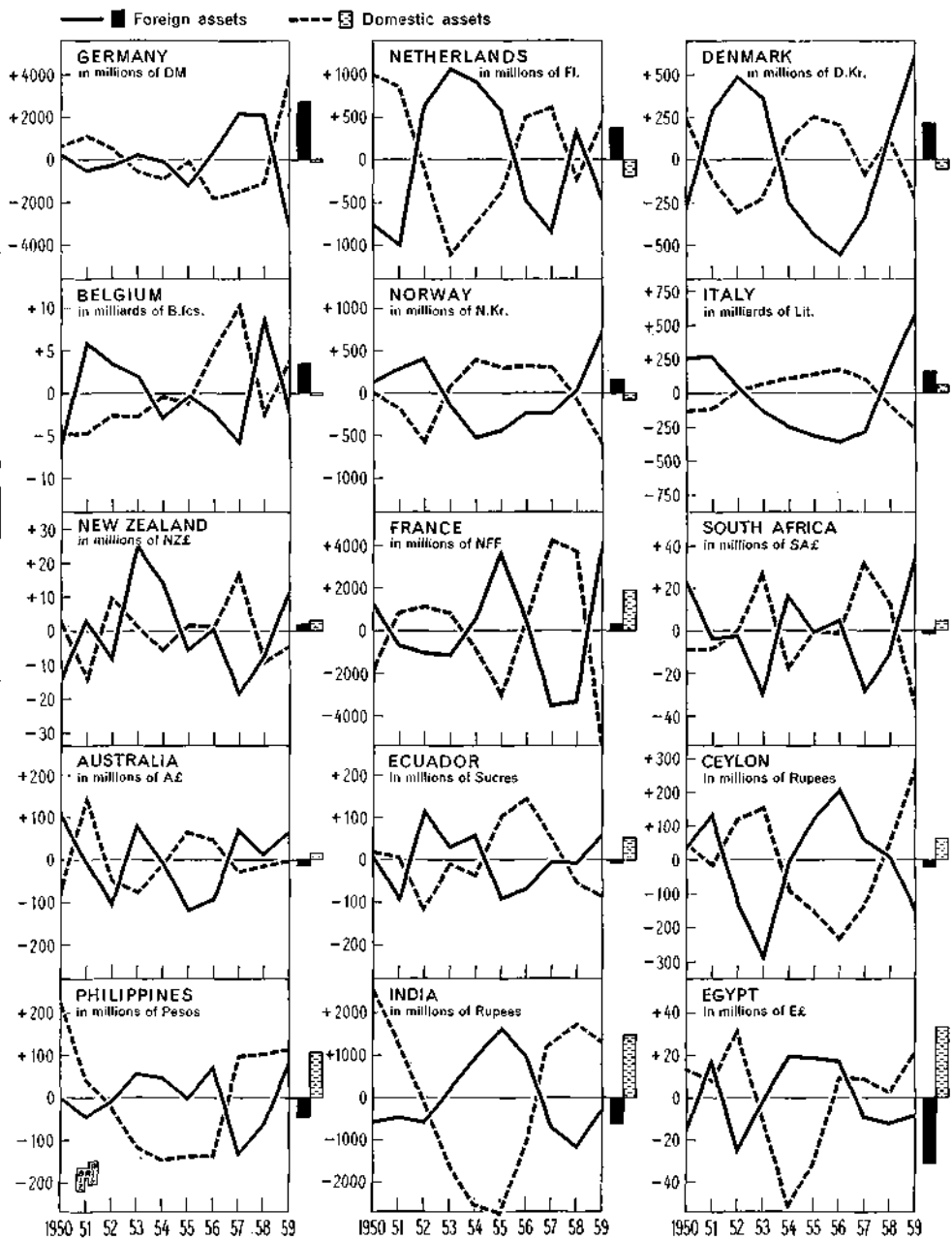
of foreign exchange reserves, which took place mainly in 1958 but continued well into 1959. In 1958 the monetary authorities in most countries had to take extensive measures to absorb part of the excess bank liquidity arising out of the foreign exchange inflow, while at the same time permitting an orderly adjustment of interest rates. The more horizontal trend of rates during most of 1959, in the face of buoyantly rising credit demands, may be regarded partly as the effect of further efforts by the monetary authorities in this direction. In some countries this implied the application of further liquidity-sterilising measures, while in others a more neutral policy towards internal credit expansion was evident, though in a number of cases the point was reached later in the year and early in 1960 when a shift towards restraint became necessary.

As an economy gains foreign exchange, bank deposits tend to increase in proportion to the amounts sold to the banks, which are then able to sell the net accruals of exchange to the central bank. The tendency for an influx of foreign exchange thus to be associated with the acquisition of central-bank funds by the banks provides the basis for a multiple expansion of credit. In its initial impact, however, the effect of a substantial foreign exchange inflow is to expand bank liquidity out of all proportion to immediate needs, particularly if, as is usually the case, the current demand for bank credit is temporarily depressed. Hence the first reaction of the banking system is to reduce its debts to the central bank, so that — even without any action on the part of the latter — the immediate result tends to be a decline in the domestic assets held by the central bank and an increase in its foreign assets. Any appreciable increase in sales of foreign exchange to the central bank, however, normally makes it necessary for the latter to intervene actively with restrictive measures, which also tend to reduce its holdings of domestic assets, in order to absorb excess bank liquidity. The compensatory movement of the two types of central-bank assets is clearly shown in the graph on the next page for fifteen countries of widely differing financial structure.

These compensatory movements do not, of course, exclude the possibility of longer-term changes in the overall position: in the longer run both types of assets may rise (or fall) or their opposing movements may come to differ greatly from one another in extent. A general expansion in the volume of means of payment in a growing economy will as a rule be reflected in an increase in the total assets of the central banks, which provide the basis for the said expansion. If the influx of foreign exchange is large and extends over a long period, as, for instance, in Germany, the addition to the total assets of the central banks will, in the end, predominantly take the form of foreign assets; if it is small or negative it will take the form of domestic assets; the upper six countries in the graph belong to the first group and the lower nine countries to the second.

The official measures taken in western European countries in 1959 to influence the liquidity of the banking system differed considerably in pattern and scope from those adopted in the preceding year. In the first place, in

Movements in central-bank holdings of foreign and domestic assets, selected countries, 1950-59.*



* For convenience of graphical presentation, the annual variations in foreign and domestic assets are expressed as deviations from their 1950-59 trends (which were eliminated by making them coincide with the zero line). The bars show annual average changes calculated as a simple average of the 1950 and 1959 values of foreign and domestic assets respectively. The selection of countries was based principally upon the availability of continuous series of data presented in the monetary surveys in the I.M.F. publication "International Financial Statistics".

a number of countries short-term interest rates were, in contrast to 1958, sufficiently low during most of the year to encourage substantial investment of foreign exchange proceeds abroad, thus to that extent temporarily obviating the need for liquidity-absorbing measures. The outflow of short-term capital via the banks was particularly large in the case of Germany, the Netherlands and Switzerland, but was appreciable also in Sweden, Austria and Belgium. In Italy, too, there was a substantial increase in the banks' holdings of short-term assets abroad, but the liquidity effects of this increase were more than offset by a pronounced rise in their short-term external liabilities.

Debt-management operations produced marked, but diverse, liquidity effects in the various countries of western Europe in 1959. In Germany, the Netherlands and Denmark the central government's substantial budgetary cash surplus on domestic account helped to restrain the growth in liquidity, a result which in Germany and the Netherlands was accentuated by government borrowing in the capital market. While in Denmark the surplus was used to repay debt to the central bank, in Germany the counterpart was mainly to be seen in that country's large advance repayments of foreign debt and in other special external payments. In the Netherlands the funds were employed largely to repay floating debt held by the banks, which in turn utilised them mainly to increase their short-term investments abroad. In Italy and Norway, on the other hand, liquidity absorption through debt management was based primarily upon borrowing, the Treasury having raised funds on the capital market in excess of current financing needs, using the surplus to reduce its debt to, or increase its deposits with, the central bank. At still another remove, in the United Kingdom and France, the Treasury's requirements were amply satisfied by a large increase in "non-marketable" debt, i.e. in those forms of saving by which funds are passed directly to the government. In both instances the Treasury position was sufficiently easy in 1959 to permit a substantial advance repayment of foreign debt, while in the case of France the Treasury was also able to sterilise an appreciable amount of funds by improving its position vis-à-vis the Bank of France. Finally, in Belgium, Sweden and Austria central-government borrowing activity was more closely related to the financing requirements arising out of the large budget deficits in each of these countries. But whereas in Sweden a large part of the government securities issued was placed with the banking system, leading the authorities in July 1959 and January 1960 to increase the liquidity ratios which the banks are required to maintain, the governments of Belgium and Austria were able to satisfy most of their financing needs through the placing of long-term issues.

In assessing the influence of the liquidity-absorbing measures and processes witnessed in various European countries in the past two years or so, it is clear that certain of these have been more temporary and less decisive in their effects than others. The banks' repayments of central-bank indebtedness, their acquisition of open-market securities and their short-term capital exports, though temporarily helping to absorb excess bank reserves and to sustain interest rates, nevertheless constitute sources of liquidity to which

Changes in official discount rates since July 1956.

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	19th May 1956	5½	1st July 1948	3
1st December 1957	6	6th September 1956	5	15th January 1959	4
Austria		11th January 1957	4½	Peru	
17th November 1955	5	19th September 1957	4	13th November 1947	6
23rd April 1959	4½	17th January 1958	3½	5th November 1959	9½
17th March 1960	5	27th June 1958	3	Philippines	
Belgium		10th January 1959	2¾	July 1955	2
4th August 1955	3	4th September 1959	3	2nd September 1957	4½
8th December 1956	3½	23rd October 1959	4	3rd February 1959	6½
25th July 1957	4½	3rd June 1960	5	Salvador	
27th March 1958	4¼	Greece		22nd March 1950	3
5th June 1958	4	1st May 1956	10	12th April 1957	4
3rd July 1958	3¾	1st October 1959	9	25th January 1960	5½
28th August 1958	3½	Iceland		South Africa	
8th January 1959	3¼	2nd April 1952	7	29th September 1955	4½
24th December 1959	4	22nd February 1960	11	5th January 1959	4
Belgian Congo		India		Spain	
1st January 1954	3½	15th November 1951	3½	1st July 1954	3¾
1st August 1957	4	16th May 1957	4	10th September 1956	4¼
1st January 1959	3¾	Ireland		22nd July 1957	5
3rd August 1959	4¼	26th May 1956	5	3rd August 1959	6¼
11th January 1960	5	30th September 1957	6	11th April 1960	5¾
Brazil		28th March 1958	5½	Sweden	
16th May 1956	6	31st May 1958	5	19th April 1955	3¾
9th April 1958	8	2nd September 1958	4½	23rd November 1956	4
Canada		28th November 1958	4¼	11th July 1957	5
5th April 1956	3	29th January 1960	4¾	3rd May 1958	4¼
10th August 1956	3¾	Italy		15th January 1960	5
18th October 1956	3½	6th April 1950	4	Switzerland	
1st November 1956	*	7th June 1958	3½	26th November 1936	1½
Chile		Japan		15th May 1957	2½
12th June 1935	4½	10th August 1955	7.30	26th February 1959	2
23rd January 1957	6	20th March 1957	7.665	United Kingdom	
Cuba		8th May 1957	8.395	16th February 1956	5½
September 1951	3½	18th June 1958	7.665	7th February 1957	5
28th November 1956	4¼	5th September 1958	7.30	19th September 1957	7
4th December 1957	5½	19th February 1959	6.935	20th March 1958	6
25th January 1960	6	2nd December 1959	7.30	22nd May 1958	5½
Denmark		Korea (South)		19th June 1958	5
23rd June 1954	5½	1st August 1955	6.57	14th August 1958	4½
19th April 1958	5	6th November 1959	7.30	20th November 1958	4
15th August 1958	4½	Libya		21st January 1960	5
19th September 1959	5	1st April 1956	4½	United States	
26th January 1960	5½	15th April 1957	4	13th April 1956	2¾
Finland		1st October 1957	5	24th August 1956	3
19th April 1956	6½-8	Netherlands		23rd August 1957	3½
1st October 1958	7¼	7th February 1956	3	15th November 1957	3
1st March 1959	6¼**	25th August 1956	3¼	24th January 1958	2½
France		22nd October 1956	3¾	7th March 1958	2¼
2nd December 1954	3	17th July 1957	4¼	18th April 1958	1½
12th April 1957	4	16th August 1957	5	12th September 1958	2
13th August 1957	5	24th January 1958	4½	7th November 1958	2½
16th October 1958	4½	25th March 1958	4	6th March 1959	3
5th February 1959	4¼	14th June 1958	3½	29th May 1959	3½
23rd April 1959	4	15th November 1958	3	11th September 1959	4
		21st January 1959	2¾	Venezuela	
		16th November 1959	3½	8th May 1947	2
		New Zealand		12th November 1959	4¼
		19th October 1955	7	April 1960	8
		19th October 1959	6		

* Since 1st November 1956 the Canadian Bank rate has been fixed each Thursday at ¼ per cent. above the latest average tender rate for Treasury bills. On 26th May 1960 it was 3.26 per cent. **Basic discount rate.

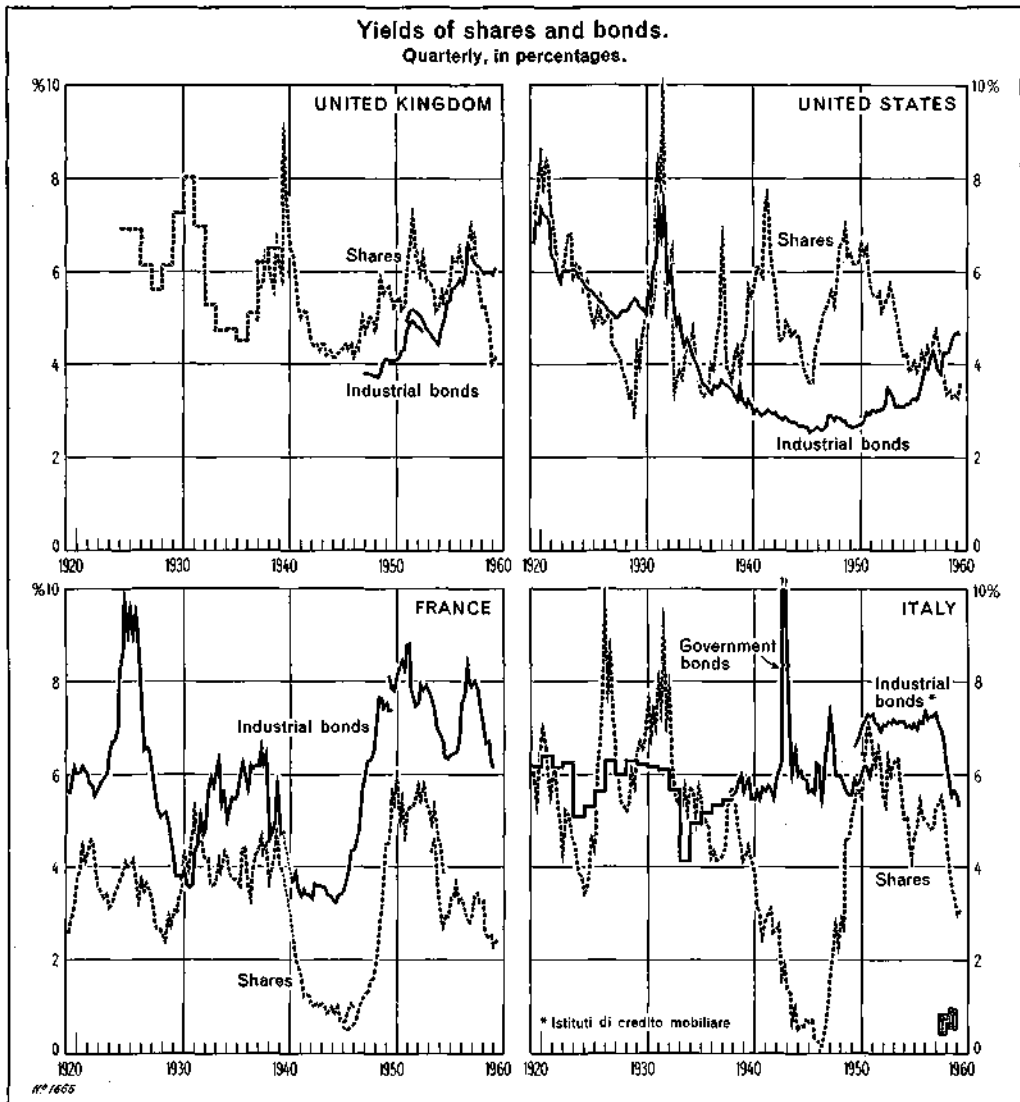
recourse can be had at a later date. Hence in a few countries in late 1959 and early 1960, as signs of inflationary tension appeared or were anticipated, monetary measures of a more positive nature — e.g. increases in minimum reserve requirements — had to be taken or held in readiness. In most western European countries, however, the various elements comprising the banks' secondary liquidity resources were still substantial in the late spring of 1960.

Intervention by western European central banks to increase short-term interest rates did not take place until late 1959 and early 1960, well after business activity and credit demands had begun to rise. Whereas there had been eight downward adjustments in discount rates in the first half of 1959 (and no increases), by the spring of 1960 these had been followed by thirteen increases (and two further decreases). In the long-term sector, too, yields in some countries showed a perceptible tendency to rise during this period particularly in Germany, the United Kingdom, Belgium, Sweden and Switzerland.

In broader perspective, the developments set in train by the temporary downturn in U.S. economic activity in the autumn of 1957, including the European convertibility moves of late 1958, appear to have brought about a high degree of financial integration among the western countries. As may be seen in the graph on page 60, this is reflected in the tendency for international differences in longer-term interest rates to become smaller and for movements in short-term rates to respond more sensitively to the changing external payments positions.

There has also been a tendency for the yield differentials as between bonds and shares in the various countries to draw more closely into line. For instance, in France and Italy, which have both at times experienced severe bouts of inflation, yields on bonds have for many years been considerably higher than those on shares, whereas in the United States and the United Kingdom the appearance of a yield differential in favour of bonds would, except for short and exceptional periods, appear to be a recent phenomenon. But while the spread of "inflation psychology" may help in varying degrees to explain the yield gap in all four countries at the present time, it is doubtful whether this factor is any longer of primary importance. More significant has been the growing conviction, in view of the social pressures for higher real incomes and the readiness with which governments intervene towards this end, that lapses from full employment will be mild and brief and, accordingly, that a relatively stable long-term growth trend is likely almost everywhere.

In the United States the relation of share to bond yields early in 1960 was the culmination of a movement that began some ten years earlier, while in the United Kingdom the change reflects mainly the rapid appreciation of share prices in the past few years. In both cases, however, an important causal factor has been the phenomenal rise in share acquisitions by institutions (mainly pension funds and investment companies) pursuing primarily long-term investment goals. The relative scarcity of shares, attributable largely to the desire of managements to maintain corporate control and to the fact that interest payments can be treated as an element of business costs, has been an



important factor on the supply side. In Italy and France changes similar in nature, though not in degree, have been taking place, while inflationary expectations in those countries are no longer what they once were. In view of the post-war institutional developments and present economic growth prospects in these various countries, the old historical relationships between share and bond yields — or at least the explanations for them — may well have undergone a certain fundamental change, notwithstanding the reversal of trend that took place early in 1960.

* * *

In the United States 1959 witnessed a remarkable increase in credit activity. As may be seen in the accompanying tabular summary of the Federal Reserve System's flow-of-funds accounts, the total net acquisition of

United States: Net investment in financial claims, by sectors, 1958-59.

Sectors	Years	Net acquisition of financial assets					Less: net increase in financial liabilities	Equals: financial surplus or deficit (—)
		Money ¹	Savings claims ²	Credit and equity-market claims ³	Other assets	Total		
<i>in milliards of dollars</i>								
Consumer ⁴	1958	2.5	23.9	3.6	— 5.5 ⁵	24.6	12.1	12.5 ⁶
	1959	1.1	20.4	16.7	— 5.2 ⁵	33.1	20.8	12.3 ⁶
Corporate	1958	1.8	0.6	1.2	3.7 ⁷	7.4	7.0	0.4 ⁶
	1959	0.2	— 0.6	5.1	8.1 ⁷	12.9	16.6	— 4.0 ⁶
Non-corporate and farm . . .	1958	1.3	—	0.2	—	1.5	4.3	— 2.8
	1959	— 0.6	—	0.4	—	— 0.2	4.2	— 4.5
Federal Government	1958	0.1	—	1.7	— 0.2	1.5	9.8	— 8.2
	1959	0.7	—	3.9	2.0	6.5	11.0	— 4.5
State and local government . .	1958	0.2	0.6	2.0	—	3.0	7.9	— 4.9
	1959	0.5	— 0.4	2.7	—	2.8	7.2	— 4.4
Commercial banking ⁸	1958	— 2.3	—	17.0	—	14.7	13.7	0.9
	1959	— 1.1	—	5.2	—	4.2	2.6	1.7
Other financial institutions . .	1958	0.4	—	19.8	0.4	20.6	18.1	2.5
	1959	—	—	24.7	— 0.2	24.5	22.0	2.5
Rest of the world ⁹	1958	2.3 ¹⁰	0.9	— 0.1	0.3	3.5	3.8	— 0.4
	1959	1.1 ¹⁰	— 1.0	3.1	2.3	5.6	3.9	1.7
Total ¹¹	1958	5.8	26.3	45.4	— 1.3	76.2	76.8	— 0.6
	1959	1.1	18.4	61.8	7.2	88.5	88.5	—

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, consumer-held U.S. savings bonds and equity in life insurance and pension funds. ³ Includes Federal obligations, State and local obligations, corporate bonds and shares, mortgages, consumer-credit claims, bank credits and other miscellaneous loans. ⁴ Includes non-profit-making organisations. ⁵ Proprietors' net investment in unincorporated business. ⁶ Differences between these estimates and those appearing in the upper right-hand section of the graph on page 69, which are based on direct estimates of saving and investment by sectors, are attributable to the statistical discrepancies which arise with both methods of estimation. ⁷ Mainly gross trade-credit claims. ⁸ Includes the Federal Reserve System. The entry for money represents net gold purchases. ⁹ Net change in financial assets or liabilities vis-à-vis the United States. ¹⁰ Foreign deposits in U.S. currency and net gold purchases. ¹¹ Includes statistical discrepancies.

credit and equity-market claims, which constitutes the best measure of the net growth in credit, is estimated to have exceeded \$60 milliard in 1959, as against \$45 milliard in 1958.

New credit formation was based to only a minor extent on a multiple expansion of total bank credit and an increase in the money supply. The tight restraint kept on the availability of central-bank reserves, the ceiling on time and savings deposit rates imposed by the Federal Reserve authorities under Regulation Q and the sharp rise in market interest rates, particularly at short term — all these were factors which helped to limit bank credit and new deposits while directing new financial savings into other channels. Total net credit granted by the banking system (including the central bank) advanced by only \$5.2 milliard, compared with a rise of \$17.0 milliard in 1958, this modest expansion being accompanied by an increase of no more than \$2.6 milliard in demand and time-deposit liabilities. The banks were able, nevertheless, to grant a record volume of new loans, amounting in all to over \$12 milliard, but to do this they had to sell off \$7.8 milliard's worth of their portfolio of Federal obligations. As the money supply (excluding U.S. Government and

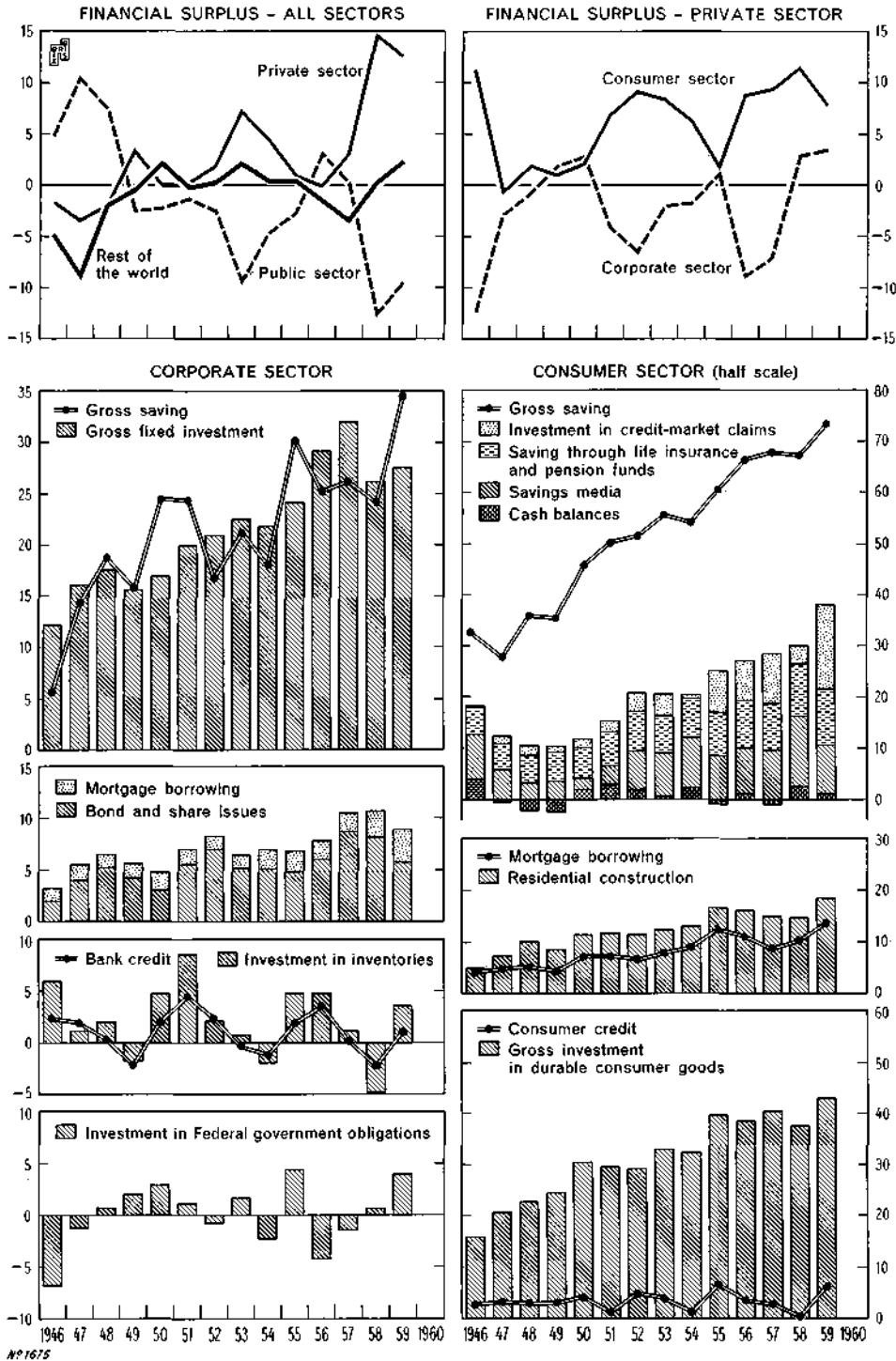
foreign deposits) increased by only \$0.3 milliard in 1959, the exceptional growth of non-bank credit was reflected in a sharp rise in the income velocity of money.

The total lending of non-bank financial institutions increased appreciably in 1959, their net acquisition of credit claims having amounted to \$24.7 milliard, compared with \$19.8 milliard in 1958. The lending activity of financial institutions, both banks and non-banks, is based for the most part on the acquisition of new funds from the various other economic sectors. The non-financial sectors have, however, the freedom to decide, depending on relative interest yields and other considerations, whether to place funds with the financial institutions or to invest them "directly" in the various credit instruments. Indeed, the direct acquisition of such credit-market claims, after having amounted to only \$8.6 milliard in 1958, jumped to \$31.9 milliard in 1959. Thus, while during a period of rapidly rising interest rates the placing of new funds with the non-bank financial institutions increases in the United States at the expense of deposit expansion at the banks, what is dramatically illustrated by the afore-mentioned figures is the even greater relative shift of funds into various types of securities, mortgages and other credit claims.

These movements can best be understood in the broader context of the saving/investing and borrowing/lending activities of individual sectors. A sector's financial surplus is the difference between its savings and its investments in the form of tangible assets. This difference represents its net investment in financial claims, which in turn is the difference between the sector's lending (or net acquisition of financial assets) and its borrowing (or net increase in financial liabilities).

The consumer sector's net acquisition of financial claims tends to vary in accordance with its gross saving, which in turn is related to the level of personal income. The difference between gross saving and the acquisition of financial assets roughly represents the sector's self-financing of purchases of investment goods, which in the U.S. flow-of-funds accounts include not only housing but also durable consumer goods. To a considerable extent, however, the households that make the "investment" outlays finance them by credit (particularly in the case of housing), and hence the growth in the sector's net financial liabilities moves closely in line with the level and pattern of such expenditure. As a rule residential construction increases during periods of business recession, when interest rates are low, and reaches a peak early in the upswing, partly because financial institutions have reduced their mortgage commitments, on which interest returns are relatively inflexible, and choose instead to invest a larger proportion of funds in corporate bonds and other securities whose yields have by then risen. Outlays on consumer durables usually follow a somewhat different pattern, falling off during a recession but then advancing rapidly during the early phase of upswing and remaining much more stable thereafter. Putting all these elements together, the 1959 changes may be seen to have been broadly similar to those in the cyclically comparable year 1955, with the difference that in 1959 the consumer sector's investment in tangible goods rose somewhat less buoyantly while consumer savings in

United States: Consumer and corporate-sector finance, 1946-59.
In milliards of dollars.



financial form increased appreciably more, partly because of the sharp rise in interest rates. The increase in rates, moreover, had a pronounced effect on the composition of financial savings. Contractual saving through life insurance and pension funds, it is true, continued to grow in 1959 as in earlier years. Compared with 1958, however, there was a marked shift, in relative terms, from cash balances and savings media towards investment in securities (mainly Federal obligations).

In most of the post-war years an increase in the consumer sector's financial surplus has been accompanied by an increase in the financial deficit (or a reduction in the surplus) of the corporate sector, and vice versa. This is principally because of the different, and overlapping, cyclical movement of the two sectors' investment outlays, through which they strongly affect each other's income and saving position. The years in which the sharpest increase in corporate gross saving were recorded — 1947, 1950, 1955 and 1959 — were also characterised by the largest rises in consumer outlays on housing and other durable goods. Corporate fixed investment, on the other hand, has usually responded to an increase in corporate saving with a considerable time-lag, rising to a peak only after gross saving has declined. The chief liquidity instrument used by corporations to bridge these time-lags is that of Federal obligations (mainly Treasury bills and other short-term issues). When corporate gross saving was relatively high in relation to fixed investment, as in 1948, 1950-51, 1955 and 1959, acquisitions of Federal obligations were positive and often large. These securities later served as a source of funds when fixed investment exceeded newly-generated saving. During such expansive periods corporations generally also have greater recourse to the capital market than at other times, while bank credit to the sector tends to be related more closely to inventory investment. In 1959 the pattern of corporate-sector finance closely resembled that of 1950 and 1955. Gross saving rose in relation to fixed investment, while renewed inventory accumulation was financed in part by bank credit. The improvement in liquidity, which expressed itself mainly in an appreciable rise (\$3.9 milliard) in corporate holdings of Treasury short-term securities, was accompanied by a decline in new issues of corporate securities, although the net issue was still large in relation to most earlier years. Liquidity further increased during the spring of 1960 as saving continued to outstrip investment.

At a more general level, the financial surplus of the private sector (including farms, non-corporate business and financial institutions) may be seen, as is shown in the upper left-hand section of the graph, to have been inversely related during the post-war period to that of the public sector. These contrary movements largely reflect the compensatory adjustments, partly planned but mainly automatic, in the Federal Government's saving as a result of cyclical fluctuations in private economic activity; and, conversely, they also reflect the concomitant income and savings reactions on the part of the private sector. The movement of the rest of the world's financial surplus (vis-à-vis the United States) in close parallel to that of the private sector is the opposite of what might ordinarily be expected and is therefore

more difficult to explain. The fact is, however, that during this period high levels of private investment and economic activity (and hence a smaller private financial surplus) were associated more often than not with a high level of U.S. exports in relation to imports, and vice versa. Moreover, the rôle of the public sector in relation to one or both of the other sectors was sometimes a relatively active one, as, for instance, when the government was helping to finance early post-war recovery abroad, or later, during the period of heavy rearmament spending in 1952-53.

In the early weeks of 1959, when the capital market, partly under the influence of extensive Treasury refunding and borrowing operations, was already under a certain amount of strain, the Federal Reserve authorities shaped their policy so as to leave banking liquidity more or less unaffected. In the spring, however, as economic activity accelerated and credit demands suddenly soared upwards on all fronts, this policy of neutrality was quickly altered to one of positive restraint. Member banks' net borrowed reserves, after standing near the zero level early in the year, rose uninterruptedly until they reached a peak of \$560 million in July; and a monetary policy of continued restraint, despite the lengthy steel strike, kept such net borrowing at a relatively high level throughout the remainder of the year. The increases in the discount rate, which was adjusted from $2\frac{1}{2}$ to 4 per cent. in three stages between early March and September followed increases in market rates. On the basis of December averages, member-bank reserves increased over the year as a whole by a mere \$30 million, reaching a total of \$18,930 million towards the end of 1959. The banks gained substantial new reserves through their increased borrowing from the central bank, through the Federal Reserve System's net purchases of government securities totalling approximately \$725 million, and through a change in regulations which permitted the banks to include a certain proportion of their vault cash as part of their official reserves. These changes, however, barely offset the reserve-reducing effects of the large outflow of gold (in excess of \$1.0 milliard) and the increase in the currency circulation.

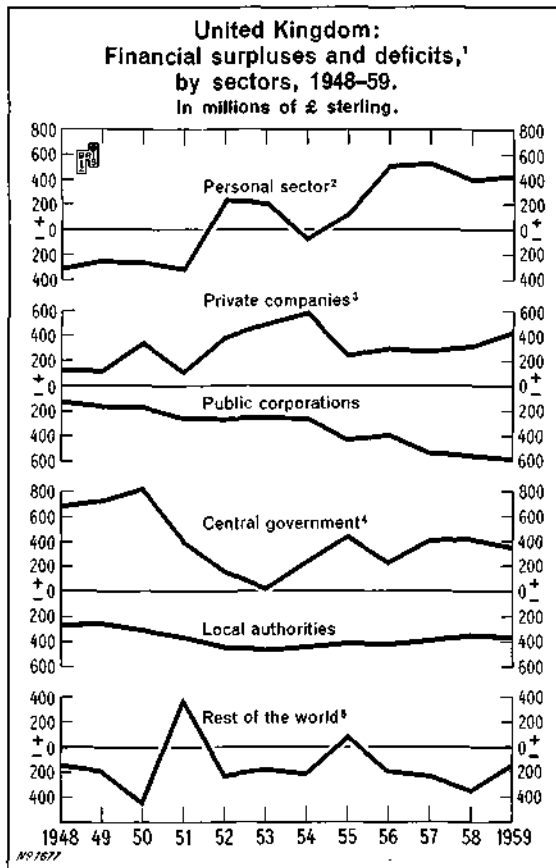
After rising intermittently throughout the year, yields on most types of debt instruments reached levels much higher than their previous post-war peaks in 1957. The increases were steepest in the short and medium-term range, where both private credit demands and bank and Treasury sales of securities were mainly concentrated. Owing to a Federal Government cash deficit of \$8.0 milliard in 1959, coupled with a continued reduction in the public's holdings of savings bonds, the Treasury had to raise more than \$11 milliard through the sale of marketable securities. Except early in the year, however, when a small amount of long-term securities was sold, the $4\frac{1}{4}$ per cent. statutory interest ceiling on new issues of long-term Federal obligations precluded the issue of securities with over five years' maturity. Nevertheless, by offering higher yields on short and medium-term securities, which reached the neighbourhood of 5 per cent. in the autumn, and by increasing the variety of issues in this range, the Treasury was able greatly to broaden the market for such securities, although only at the cost of a further appreciable shortening of the average maturity of the public debt. In the circumstances of today the potential advantages to be

derived from flexible financial policies would seem to make the arbitrary rate ceiling on longer-term Treasury borrowing a gratuitous encumbrance, particularly in an economy which relies relatively heavily upon the voluntary responses of institutional and private investors.

In the early months of 1960, partly as a result of special and temporary factors, there was a slackening in industrial production, and this was accompanied by a perceptible scaling-down of expectations, as evidenced by a fall in interest rates and share prices. There are reasons to suppose, however, that economic activity is now on a more realistic footing and will henceforth move upwards at a slower but more sustainable rate.

In the United Kingdom economic and financial developments in 1959 were influenced to a striking extent by the spending, borrowing and lending activities of the personal sector. A booming demand for durable goods, stimulated both by the removal in October 1958 of restrictions on hire-purchase lending and by the budget measures of April 1959, led the upswing in industrial production; the outstanding volume of hire-purchase debt in fact increased by some £245 million during the year, compared with a rise of £95 million in 1958. Moreover, in conjunction with an increase in private demand for housing, new advances by building societies (less repayments) amounted to £225 million, or £80 million more than in the preceding year. Equally impressive was a sharp increase in the personal sector's acquisitions of financial assets, which were sufficient to offset the rise in borrowing and thus to maintain the sector's financial surplus, or net investment in financial claims, at approximately £430 million, or about the same level as in 1958. Identifiable increases in financial assets totalled £1,415 million, compared with £1,060 million in 1958. Savings through life assurance and pension funds, estimated at £700 million in 1959, continued to display a steadily rising trend, while building society deposits and shares jumped by £265 million and net personal deposits with banks (i.e. net of personal advances for non-business purposes) rose by over £50 million. The most significant change, however, was a further growth in National Savings by almost £400 million, or twice as much as the already large increase of the preceding year.

The financial surplus of the company sector increased in 1959, profits having risen while fixed capital investment showed little change and inventory investment was moderate. This increased availability of internal funds, combined with extensive borrowing activities, enabled companies as a group to augment their liquid and other financial assets, as they had also done in 1958. Through capital issues manufacturing industries and distributive trades raised new funds amounting to £221 million in 1959, as against only £153 million in 1958. This increase, facilitated by the virtual abolition in February 1959 of controls over new issues, reflected the buoyancy of business expectations and the relatively easy conditions prevailing on the capital market, where the government was a net supplier of funds in 1959 and new money was also available in greater volume from non-bank financial institutions and the public. Non-financial companies in the private sector also obtained bank advances on a larger scale in 1959.



¹ A sector's financial surplus is equal to its gross saving plus net capital transfer receipts minus its gross domestic investment. Although in each year the financial surpluses and deficits of all sectors together should add up to zero, this is usually not the case owing to errors of estimate, which are sometimes large. ² Includes unincorporated businesses. ³ Includes net acquisition of foreign assets. ⁴ Includes National Insurance funds. ⁵ Financial surplus of the rest of the world vis-à-vis the United Kingdom.

The central government's financial surplus diminished from about £425 million in 1958 to just over £350 million in 1959. This decline in internal funds, however, was much more than compensated by the increased availability of funds from other sources. Most notable among these was the sharp rise in National Savings, net central-government borrowing through this channel having gone up from £175 million in 1958 to £365 million in 1959. Moreover, whereas in 1958 the funds needed to finance the increased gold and foreign exchange holdings of the Exchange Equalisation Account amounted to £270 million, a £135 million reduction in these holdings in 1959 supplied the Exchequer with domestic funds to an equivalent amount. Still further funds accrued to the Exchequer owing to an increase in the fiduciary issue (£50 million), to the net repayment of debt by local authorities (£35 million), and to other, mainly extra-budgetary, receipts (£100 million). Alto-

gether, including the financial surplus itself, the funds accruing from the various sources came to almost £1,050 million.

The principal claim on these funds was made, as usual, by the public corporations, whose net borrowing from the central government rose in 1959 by about £40 million to £615 million. In addition, the central government's external capital transactions, which consisted in 1959 mainly of advance repayments and special transactions, involved an outlay of £275 million, as against only £70 million in 1958. The central government's remaining surplus of disposable funds, which amounted in 1959 to over £140 million, was absorbed by a decline in the public's holdings of tax reserve certificates and marketable debt. The reduction in marketable debt, which amounted to something over £100 million, was the net result of a large sale of Treasury bills offset by a still larger acquisition of government stock offered on the market. The London clearing banks, in order to take advantage of the rising demand for bank loans, disposed of approximately £400 million of such stock during the year. But in view of the

exceptional volume of new private-sector financial savings accruing in 1959, together with the relatively stable conditions prevailing in the market for fixed-interest-bearing securities, it seems reasonable to assume that there was an increase — of perhaps as much as £100 million — in the holdings of non-bank investors (both financial and non-financial). If this is so, it would imply that the monetary authorities made net sales of Treasury bills to the extent of about £200 million. Some £30 million of this total was accounted for by the London clearing banks, while the remainder consisted mainly of purchases by foreigners and by domestic financial and non-financial companies.

In the banking year ended in mid-March 1960, the London clearing banks' total assets and net deposit liabilities increased by 8 and 4 per cent., respectively. Advances jumped by £642 million, or 27 per cent., but this was possible only because of heavy liquidations of holdings of government stock, which declined by about £450 million during this period. According to the "Economic Survey 1960", one may infer that upwards of one-half of the total increase in advances from banks and other lending institutions was closely associated in some form or other with consumer credit.

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
1957-58	+ 155	— 9	+ 167	+ 101	+ 260	— 61	— 21	— 82
1958-59	+ 216	+ 63	— 205	— 166	— 308	+ 526	+ 3	+ 529
1959-60	+ 246	+ 54	+ 64	— 427	— 309	+ 642	+ 26	+ 668
Outstanding at mid-March 1960	6,073	555	941	1,501	2,997	3,008	153	3,159

* Including advances to nationalised industries.

That credit conditions in the money and capital markets remained relatively easy throughout most of the banking year was largely attributable to the readiness with which the monetary authorities took up government stock offered for sale by the banking system. For the most part the switch from investments to advances occurred against a background of relatively stable interest rates, as the authorities did not wish during this period to hinder the recovery of demand. The situation began to change somewhat late in 1959 and early in 1960, as may be seen from the movement of interest rates. The average tender rate on three-month Treasury bills, after rising about $\frac{1}{4}$ per cent. during the first half of 1959, remained relatively stable at just below $3\frac{1}{2}$ per cent. until December 1959, when it increased perceptibly under the influence of rising short-term rates in foreign centres and growing expectations of an increase in Bank rate. When Bank rate was in fact adjusted upwards from 4 to 5 per cent. on 21st January 1960, after having remained unchanged throughout 1959, the Treasury bill rate rose to about $4\frac{1}{2}$ per cent. The

yield on $2\frac{1}{2}$ per cent. Consols, which fluctuated within a range of 4.7 to 4.9 per cent. during most of 1959, also began to edge upwards in the closing weeks, standing at about 5.15 per cent. in the early weeks of 1960. Towards the end of February there was a further rise in long-term rates, a tendency which reflected a stiffening in the attitude of the monetary authorities in response to heavy sales of securities by the banks. Following these changes, which represented the first precautionary moves by the authorities towards a policy of restraint, the banks continued in April to dispose of securities as credit demands increased further during the spring. Towards the end of April, as foreshadowed in the Chancellor's budget speech and at a time when economic indicators pointed towards a possibly excessive rise in home demand, the authorities took additional restraining measures. These were a first call upon the banks for "special deposits" under the scheme originally announced in July 1958 and a re-imposition of hire-purchase controls. The London clearing banks were required to deposit with the Bank of England an amount equal to 1 per cent. of each bank's total gross deposits, while the Scottish banks were similarly asked for a sum equivalent to $\frac{1}{2}$ per cent. of deposits. The banks were given until 15th June 1960 to satisfy the new requirement. Simultaneously with the launching of the special-deposits scheme, the authorities also announced the reintroduction of minimum initial payments and maximum periods for repayments under hire-purchase contracts.

In France a sharp increase in internal liquidity in 1959 was a consequence, and a reflection, of the success achieved by the stabilisation measures taken in 1958. The improvement in export earnings, the economising in imports, the normalisation of the timing of external payments, the marked increase in private and government saving, the repatriation of funds held abroad, together with an influx of new capital — all were factors contributing to a high rate of formation of financial assets and a notable easing of credit-market conditions.

The enterprise sector's net acquisition of cash balances and other liquid resources amounted to NFF 6.40 milliard in 1959, against only NFF 0.65 milliard in 1958. Similarly, the household sector's net acquisition of financial assets, largely of a liquid character, came to NFF 12.58 milliard, compared with NFF 10.61 milliard in the preceding year. These sectoral estimates may with advantage be viewed against the background of certain statistical aggregates published by the National Credit Council. The money volume increased in 1959 by NFF 9.43 milliard, or 11.3 per cent., while a significant change also occurred in the acquisition of Treasury bills by individuals and non-financial enterprises, whose holdings of these increased by NFF 3.69 milliard in 1959, against NFF 1.19 milliard in 1958. The growth in savings bank deposits, which in 1958, at NFF 2.98 milliard, was already relatively large, amounted in 1959 to NFF 3.79 milliard. Finally, a substantial increase was also recorded in time deposits and longer-term savings bonds.

As the private sector's liquid savings were largely of the type normally channelled wholly or in part to the central government, the financial position of

France: Changes in financial assets and liabilities, by sectors, 1958-59.¹

Items	Years	House-	Enter-	Public	Financial	Rest
		holds	prises	author-	institu-	of the
in milliards of new French francs						
Financial surplus or deficit (—)	1958	4.81	— 11.69	— 0.19	2.78	— 4.29 ³
	1959	6.84	— 8.97	0.38	2.73	0.98 ³
Corresponding changes in financial assets (increase +) and liabilities (increase —)						
Money (cash and sight deposits) . . .	1958	4.09	0.35	— 0.80	— 3.54	0.10
	1959	5.13	4.00	— 1.36	— 7.77	—
Other short and medium-term claims (including savings deposits) . . .	1958	2.74	0.30	0.89	— 3.79	0.14
	1959	4.14	2.40	— 2.02	— 5.74	— 1.22
Securities	1958	3.78	— 1.16	— 4.15	0.50	— 1.03
	1959	3.31	— 3.07	— 2.15	0.02	— 1.89
Bank credits						
Short-term ⁴	1958	— 0.10	— 2.12	0.15	2.24	0.17
	1959	— 0.40	— 5.66	1.93	4.34	0.21
Medium-term	1958	—	— 1.50	—	1.50	—
	1959	—	— 0.20	—	0.20	—
Long-term loans (non-negotiable) . .	1958	— 1.98 ⁵	— 6.04	3.98	3.84	— 0.20
	1959	— 2.48 ⁵	— 7.12	6.34	4.51	1.25
Short-term transactions between the Treasury and the financial institutions	1958			— 0.54	0.54	
	1959			— 1.82	1.82	
Gold and foreign exchange	1958	— 0.31	—	— 0.04	1.07	0.72
	1959	— 0.24	—	—	5.18	4.94
Statistical adjustment ⁶	1958	— 3.41	— 1.52	0.32	0.42	— 4.19
	1959	— 2.62	0.68	— 0.54	0.17	— 2.31

¹ Provisional estimates made by the Department of Economic and Financial Research of the Ministry of Finance for the 1959 national accounts. ² Bank of France, banks, public credit institutions and 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 Including advances by the Treasury. ⁵ Including some medium-term construction credits. ⁶ Including unidentified movements of funds, which consist in part of funds repatriated from North Africa to the metropolitan area.

the Treasury eased very considerably in 1959. The monetary implications of these changes may best be explained by starting with the central government's overall deficit (see also Chapter II). If debt amortisation is included, the Treasury's total financing requirements rose from NFF 7.23 milliard in 1958 to NFF 8.84 milliard in 1959. These needs were more than satisfied, however, by the total disposable funds — NFF 12.62 milliard — becoming available to the Treasury from savings resources, Treasury bill issues, correspondents' accounts and other miscellaneous transactions. The remaining sum of NFF 3.78 milliard was sterilised by transactions with the Bank of France, consisting partly of the repayment of direct advances (NFF 1.71 milliard) and partly of the reacquisition of "obligations cautionnées" (NFF 2.07 milliard), these latter comprising mainly government tax claims discounted with the central bank.

The Treasury refrained from placing a long-term issue on the capital market in 1959, though to have done so would have enabled it further to

restrain the growth of liquidity. Its object, which appears to have been fulfilled, was to permit the accumulation of liquidity to continue in such a way as to produce a gradual downward adjustment of long-term interest rates, thus bringing them more into line with comparable rates abroad. After having declined substantially since the spring of 1958, the yields on all types of private and public obligations underwent a further significant reduction in 1959; the yield on industrial bonds, for instance, dropped from over 8 per cent. in March 1958 to about 7 per cent. around the turn of the year and then to 6 per cent. by the end of 1959. Gross new capital issues declined from NFF 8.71 milliard in 1958 to NFF 7.69 milliard in 1959. But since the Treasury was not in the market in 1959, whereas in the preceding year it had issued a long-term loan for NFF 2.94 milliard, other types of issues increased considerably. Virtually the entire rise was accounted for by private bond and share issues, which totalled NFF 5.04 milliard in 1959, compared with NFF 2.88 milliard in 1958. The bond issues of the nationalised industries and other public and semi-public institutions were slightly lower in 1959.

Besides the funds raised on the capital market, another important source of long-term credit to the economy consists of construction and equipment loans granted by the Treasury and the specialised credit institutions. These credits are included in the table under "Long-term loans (non-negotiable)", the increase in which, to the household and enterprise sectors together, amounted to NFF 9.60 milliard, compared with NFF 8.02 milliard in 1958. The large rise in 1959 was attributable both to increased lending by the Treasury, particularly to the nationalised industries (which borrowed less on the capital market), and by the public credit institutions, to which much of the rise in private savings accrued. At the same time that the enterprise sector's sources of long-term funds greatly increased, its new borrowing at medium term dropped off to only NFF 0.20 milliard.

The liquidity of the banking system increased remarkably in 1959. The growth in total bank deposits amounted to no less than 23.5 per cent. The public's demand for bank-notes, after having risen continually in earlier years, abruptly levelled off in 1959, bank-notes thus falling from 46 to 41 per cent. of the money supply. On the other hand, the demand for bank credit advanced only slowly during the first three quarters of 1959, but rose quite sharply as economic activity suddenly accelerated in the fourth quarter. In these circumstances part of the banks' growing liquidity was absorbed by purchases of some NFF 2.3 milliard's worth of Treasury bills made in order to satisfy the minimum liquidity requirements in force. The still large funds remaining were used by the banks mainly to reconstitute their portfolio of medium-term credits, almost the whole of which had earlier been discounted with the central bank. Thus the banks' holdings of medium-term paper increased by NFF 3.32 milliard in 1959, while those of the Bank of France diminished by NFF 3.57 milliard.

In 1959 the easing of credit restraints that had already begun in the latter part of 1958 was continued. The limitations on short and medium-term

credit were removed in February 1959, and the rules concerning instalment purchases of durable consumer and investment goods were progressively relaxed. The discount rate was reduced in two stages from $4\frac{1}{2}$ to 4 per cent. in the first half of the year, while appreciably larger downward adjustments were made, at these and other times, in penalty discount rates. The cost of short-term credit was also brought down by certain reductions made during the year in the schedule of permissible bank charges and commissions.

In Germany the rise in the enterprise sector's financial deficit from DM 12.1 milliard in 1958 to DM 16.6 milliard in 1959 was attributable only in part to an increase in investment by industrial enterprises. Another important factor was a large expansion in the construction of dwellings, the financing of which was reflected in an increase in direct loans (mainly for housing) from the public authorities, a rise in borrowing from the building and loan associations and a sizable growth in medium and long-term loans (which include construction credits). In addition, non-industrial business enterprises also appear to have significantly increased their investment outlays, and these smaller firms may, as in a number of other countries, have accounted to a considerable extent for the upsurge in bank credit in 1959. Finally, the enterprise sector's sales of securities dropped off from DM 3.6 milliard in 1958 to DM 2.1 milliard in 1959, while the volume of new securities taken up within the sector increased.

The public authorities' financial surplus, after having declined in each of the two preceding years, rose substantially in 1959. In its domestic transactions the Federal Government attained a sizable cash surplus, which, together with a net drawing-down of deposits held with the central bank, helped to finance large special external payments, consisting mainly of premature debt repayments and advance payments for armaments.

The measures of monetary restraint taken from the autumn of 1959 until the spring of 1960 preceded, and were considerably more extensive than, those introduced in other western European countries. These measures were aimed not only at moderating the sharp advance of economic activity but also at counteracting a high degree of bank liquidity. As a result of the preceding retardation of economic activity, together with the cumulative influence of the long-persisting influx of foreign exchange, the credit institutions had by the summer of 1959 become highly liquid. By the end of June their indebtedness to the central bank had been brought down to DM 810 million, while their holdings of open-market paper amounted to almost DM 7.2 milliard and their short-term foreign assets to DM 3.4 milliard.

In the autumn of 1959 the Bundesbank first raised the discount rate in September from $2\frac{3}{4}$ to 3 per cent., and then followed up this step late in October by a further increase to 4 per cent. On this occasion, moreover, minimum reserve requirements were raised by 10 per cent. for all credit institutions. The latter measure was followed by two further increases of 10 and 20 per cent. at the beginning of January and in March 1960 respectively, notice having also

Germany: Changes in financial assets and liabilities, by sectors, 1958-59.

Items	Years	Households ¹	Enterprises ¹	Public authorities	Financial institutions			Rest of the world ³
					Banks	Insurance companies ²	Building and loan associations	
in milliards of Deutsche Mark								
Financial surplus or deficit (—)	1958	13.5	— 12.1	4.5	.	.	.	5.9 ⁴
	1959	15.0	— 16.6	7.0	.	.	.	5.4 ⁴
Corresponding changes in financial assets (increase+) and liabilities (increase—)								
Currency and sight deposits	1958	1.6	2.8	— 0.3	— 4.4	—	0.2	— 0.1
	1959	1.3	2.7	— 2.5	— 1.7	—	—	— 0.2
Time and savings deposits	1958	6.0	0.3	0.7	— 7.5	—	0.4	—
	1959	6.9	0.9	1.3	— 9.6	—	0.4	—
Other funds placed with banks	1958	—	2.1	1.6	— 3.6 ⁵	—	—	—
	1959	—	2.3	1.3	— 4.2 ⁵	0.1	—	— 0.5
Bank credits								
Short-term	1958	— 0.1	— 0.2	— 0.2	1.1	—	—	0.6
	1959	— 0.2	— 2.1	— 0.9	4.6	—	—	1.3
Medium and long-term	1958	— 0.3	— 8.2	— 1.9	10.7	—	—	0.4
	1959	— 0.8	— 10.5	— 2.2	14.0	—	—	0.5
Building and loan associations								
Claims against	1958	3.1	0.1	—	—	—	— 3.1 ⁵	—
	1959	3.8	0.1	—	—	—	— 3.9 ⁵	—
Out-payments from	1958	—	— 2.6	—	—	—	2.6	—
	1959	—	— 3.2	—	—	—	3.2	—
Insurance companies								
Claims against	1958	1.6	0.6	—	—	— 2.2 ⁵	—	—
	1959	2.2	0.7	—	—	— 2.9 ⁵	—	—
Borrowing from	1958	—	— 1.2	— 0.1	—	1.3	—	—
	1959	—	— 1.5	— 0.1	—	1.6	—	—
Security transactions								
Acquisitions	1958	1.7	0.5	0.6	4.9	1.0	—	— 0.7
	1959	1.9	0.8	1.3	4.9	1.2	0.2	— 0.6
Sales	1958	—	— 3.6	— 0.7	— 4.3	—	—	0.7
	1959	—	— 2.1	— 1.1	— 5.9	—	—	1.7
Other financial transactions (net)	1958	— 0.1	— 2.6	4.6	—	—	—	1.8
	1959	—	— 4.6	10.0	—	—	—	5.3
Gold and foreign exchange holdings of the Bundesbank								
	1958	—	—	—	3.2	—	—	3.2
	1959	—	—	—	— 2.1	—	—	— 2.1

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 pension funds. ³ Includes foreign countries, West Berlin and eastern Germany. A positive figure indicates an increase in Germany's claims vis-à-vis the rest of the world. ⁴ Net foreign investment (i.e. balance of payments on current account minus unilateral transfers). ⁵ Includes own resources.
 Source: Preliminary estimates of the Deutsche Bundesbank; for revised figures see the Bundesbank's Monthly Report for June 1960.

been given to the effect that any increase in the banks' foreign liabilities after the end of November 1959 would be subject to the maximum permissible reserve requirements. The change in March 1960 was accompanied by a substantial reduction in the banks' rediscount margins with the central bank. During the second half of 1959 and the first quarter of 1960 the net liquidity effect upon the credit institutions of the central bank's purchases of foreign exchange

(excluding its exchange transactions with the Treasury) was approximately compensated by the outflow of currency into circulation and an absorption of domestic funds into the central-bank balances of the public authorities. Hence, largely because of the increases in reserve requirements, which took up some DM 3.2 milliard of their liquidity, the credit institutions sold back to the Bundesbank short-term mobilisation paper to the extent of DM 2.0 milliard and increased their borrowing from the central bank by DM 1.6 milliard. Since, nevertheless, the banks' liquidity margins continued to be considerable and the demand for credit kept on growing, the Bundesbank resorted early in May 1960 to a further increase in reserve requirements calculated to remove another DM 1.0 milliard of liquidity. In addition, at the beginning of June the bank increased the discount rate from 4 to 5 per cent. and prohibited the payment of interest on foreign-held bank deposits. The effective yield on newly-issued bonds, which had fallen to 5-5¼ per cent. in the spring of 1959, rose quickly after the discount rate increase in October, but then seemed to level off in early 1960 at 6¼-6½ per cent. — a yield still much lower than that of 8 per cent. which prevailed three years earlier.

In the Netherlands the private sector's financial surplus, when considered together with the increase in savings funds channelled via the institutional investors, showed a modest decline on a transactions basis, but a more appreciable one on a cash basis. Private offerings of securities on the capital market rose from Fl. 1,410 million in 1958 to Fl. 1,680 million in 1959, while the amount of these securities taken up within the private sector itself declined from Fl. 560 million to Fl. 410 million. Bank credit increased by only Fl. 550 million in 1959, but the entire rise was concentrated in the second half of the year. The accumulation of additional cash balances and secondary liquid assets by the private sector in 1959, though quite large (Fl. 730 million), was nevertheless much less great than in 1958. This was partly connected with the decline in the banking system's net purchases of gold and foreign exchange from Fl. 2,250 million in 1958 to Fl. 1,350 million in 1959, but it was also due to the extensive funding operations undertaken by the public authorities.

The budgetary position of the public authorities improved substantially compared with 1958, as the central government's position shifted from a financial deficit to a surplus while the local authorities' financial deficit showed a further decline. Moreover, taking advantage of increasing domestic liquidity, the public authorities borrowed on the capital market much in excess of their current needs, using the difference to redeem floating debt. In this way long-term interest rates were kept fairly stable at a relatively high level, while the redemption of short-term government paper helped to keep short-term rates below those in other countries, thus providing the banks with a strong incentive to invest their excess liquid resources abroad. The excess of the central government's financial surplus over its net foreign lending, together with its sharply increased borrowing in the capital market (Fl. 720 million) and a small amount of short-term borrowing outside the banking system,

Netherlands: Changes in financial assets and liabilities, by sectors, 1957-59.

Items	Years	Central government	Local authorities	Institutional investors ¹	Private sector	Rest of the world
		In millions of florins				
Financial surplus or deficit (—)						
Transactions basis	1957	— 120	— 1,490	1,880	— 750	— 480
	1958	80	— 1,720	2,470	760	1,590
	1959	620	— 1,770	2,900	90	1,840
Cash basis	1957	340	— 1,540	1,580	— 810 ²	— 430 ³
	1958	— 480	— 1,200	2,630	730 ²	1,680 ³
	1959	280	— 890	2,750	— 580 ²	1,560 ³
Corresponding changes in financial assets (increase +) and liabilities (increase —)						
Primary liquid resources	1957	—	—	— 20	— 180	
	1958	—	30	30	1,010	
	1959	—	20	10	460	
Secondary liquid resources	1957	— 140	— 420	230	660	— 270 ⁴
	1958	— 350	— 110	360	580	2,250 ⁴
	1959	— 60	410	130	270	1,350 ⁴
Bank credit	1957	— 220	20	— 10	— 190	
	1958	400	— 60	70	290	
	1959	840	— 100	— 40	— 550	
Monetary credit from central government to local authorities	1957	530	— 530			
	1958	— 530	530			
	1959	—	—			
Capital market (net)	1957	— 60	— 610	1,380	— 900	— 190
	1958	— 250	— 1,530	2,170	— 850	— 460
	1959	— 720	— 1,180	2,650	— 1,270	— 520
Lending or borrowing abroad ⁵	1957	230	—	—	— 200	30
	1958	250	— 60	—	— 300	— 110
	1959	220	—	—	510	730

¹ Includes 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 Mainly direct investment.

supplied the government in 1959 with liquid funds totalling Fl. 840 million, which were used to reduce its net indebtedness towards the banking system (including the central bank). The local authorities, while borrowing a good deal less at long term than in the preceding year, nevertheless raised funds on the capital market in excess of the sector's financial deficit. The excess liquid funds were used principally to reduce short-term debt held by non-bank creditors.

The total offer of funds on the Netherlands capital market rose from Fl. 3,200 million in 1958 to Fl. 3,900 million in 1959. Fl. 1,900 million of these funds was taken up by the public sector and Fl. 1,680 million by the private sector, while another Fl. 320 million was absorbed by the sale of foreign securities to Netherlands residents.

As a result of the favourable development of the public sector's financial position, coupled with the large export of short-term capital, the Nederlandsche Bank did not find it necessary in 1959 to intervene extensively with the usual

instruments of monetary control. The main positive step was the increase in the discount rate from $2\frac{3}{4}$ to $3\frac{1}{2}$ per cent. in November. Other measures were primarily of a technical character, designed in part to keep short-term rates in the Netherlands low in relation to those in foreign centres. In May 1959 the minimum cash-reserve ratio was reduced from 10 to 7 per cent. in order to supply the banks with the funds necessary to enable them to take over the residue of the I.B.R.D. loan obtained by the Netherlands Government in 1947. The reserve ratio was again reduced — temporarily — to 6 per cent. during the summer of 1959, when short-term rates were tending to rise under the influence of a large state loan issue. In the spring of 1960, when the commercial banks' holdings of short-term foreign assets stood at a very high level, the Nederlandsche Bank indicated that any undue expansion of domestic credit might have to be countered by the imposition of a credit ceiling and a requirement that part of any excess reserves be placed in interest-free deposits with the central bank.

In Belgium the money supply, though still advancing somewhat faster than the gross national product, expanded more moderately in 1959, the increase principally taking the form of a rise in sight deposits with the banks, which also benefited from a further large increase in time and savings deposits. Since the heavy influx of foreign exchange in 1958 was replaced by a small outflow in 1959, the counterpart of this substantial rise in bank deposits was a roughly equivalent increase in credit to the domestic economy, particularly the public sector.

Belgium: Formation of the money supply.*

Items	1957	1958	1959	Out-standing at the end of 1959
	in milliards of Belgian francs			
Changes in the money supply				
Currency	+ 1.2	+ 4.8	+ 1.0	121.3
Demand deposits	- 1.5	+ 6.7	+ 5.8	95.0
Total	- 0.3	+ 11.5	+ 6.8	216.3
Changes in corresponding Items				
Bank claims on the private economy	+ 3.3	- 8.4	+ 4.2	48.1
the public sector	- 3.2	+ 7.8	+ 8.1	141.0
Total bank claims	+ 0.1	- 0.6	+ 12.3	189.1
Gold and foreign exchange (net)	+ 1.9	+ 16.0	- 1.4	70.7
Other items	+ 0.3	+ 2.4	+ 2.2	9.3
Total	+ 2.3	+ 17.8	+ 13.1	268.1
Increase (-) in time and savings deposits, etc.	- 2.6	- 6.3	- 6.3	- 51.8
Grand total	- 0.3	+ 11.5	+ 6.8	216.3

* Data from the consolidated balance sheet of the monetary institutions, including the central bank.

Relatively easy borrowing conditions continued to characterise the capital market in 1959. However, Belgian companies, whose liquidity position improved in 1958-59, reduced their net recourse to the market for the second consecutive year. On the other hand, the central government, whose cash deficit, at B.fcs. 25.7 milliard, was at approximately the same high level in 1959 as in the preceding year, was able to finance over B.fcs. 20.2 milliard of this total through domestic placings of medium and long-term debt. These sales were facilitated by the large growth in deposits with the public credit institutions, the most important increase being one of over B.fcs. 7.7 milliard in savings deposits with the Caisse Générale d'Épargne. Mortgage registrations rose in 1959 to B.fcs. 25.6 milliard — over 20 per cent. above their level in the preceding year.

The central bank's discount rate, after remaining at $3\frac{1}{4}$ per cent. throughout most of the year, was increased to 4 per cent. late in December 1959. The object of this measure was not to restrain bank lending but rather to discourage the placing of additional short-term funds abroad. The yield on six-month Treasury certificates, which had already moved upwards in response to external influences from about $3\frac{1}{4}$ per cent. in the spring of 1959 to 3.6 per cent. at the beginning of December, stood at almost 4.2 per cent. in the early months of 1960. The yield on five to twenty-year government bonds also edged upwards gradually from a low of 4.85 per cent. at the beginning of 1959 to just over 5.3 per cent. in the spring of 1960. Further improvements were made in the instruments of control available to the monetary authorities. Under a law dated 19th June 1959, the Fonds des Rentes was given the right to intervene not only in the market for medium and long-term public securities but also in that for short-term public bills, and at the same time the resources of the Fund were substantially increased. In November 1959, moreover, the call-money market was reorganised so as to give the Fund readier access to it. These various changes were intended to lay the basis for a genuine open-market policy.

In Italy the private sector's financial surplus, which had already risen sharply in 1958 to reach Lit. 740 milliard, increased in 1959 to Lit. 1,000 milliard, saving having continued to expand while investment was no higher than in the preceding year. For rather the opposite reasons — an increase in investment and a slight decline in saving — the financial deficit of the public sector (including the local authorities and certain public bodies) rose from Lit. 390 milliard in 1958 to Lit. 530 milliard in 1959. As this deterioration was outweighed by the improvement in the private sector's position there was at the same time a further increase in the current-account balance-of-payments surplus. The economy's demand for credit accelerated markedly in 1959, particularly towards the end of the year, while the government's net borrowing also showed a further increase. Thus the financial assets forming the counterpart of this growth in credit, after having jumped to Lit. 2,080 milliard in 1958 from an average of about Lit. 1,450 milliard in 1952-57, showed a further notable rise to Lit. 2,540 milliard in 1959.

Italy: The flow of new financial funds.

Items	1957	1958	1959
	in milliards of lire		
Sources of funds			
Money supply	209.6	510.8	893.5
Savings deposits	638.0	927.7	865.6
Capital market*	554.6	643.3	779.8
Total	1,402.2	2,081.8	2,538.9
Uses of funds			
Claims against the central government . . .	210.1	300.4	335.8
Claims against the rest of the economy . . .	1,018.0	1,197.2	1,634.7
Gold and foreign exchange	174.1	584.2	568.4
Total	1,402.2	2,081.8	2,538.9

* Includes foreign-aid funds totalling Lit. 31.0, 18.5 and 4.2 milliard in the three years respectively.

As a result of the favourable conditions prevailing on the capital market in 1959, the central government was able to place at par an issue of seven-year Treasury bonds for the amount of Lit. 300 milliard, yielding 5 per cent., the proceeds having been earmarked for public investment expenditure. About two-thirds of this issue appears to have been taken up by the public and the remainder by the banks and the special credit institutions. In addition, the banks purchased Treasury bills on a larger scale than was needed to satisfy minimum reserve requirements, thus bringing the Treasury's total borrowing to some Lit. 640 milliard, an amount considerably in excess of its financing requirements in 1959. The surplus, which was approximately equal to the proceeds of the public issue in July, was temporarily sterilised with the Bank of Italy. In the first quarter of 1960 a new nine-year Treasury bond issue for Lit. 250 milliard was made, Lit. 116 milliard of which was to be used to redeem a similar issue maturing on 1st April. Capital issues of other kinds declined moderately in 1959. Private share issues were virtually as large as in 1958, but bond issues were kept down, owing to an expected reduction in the rate of tax on bond interest yields. In early 1960, after this reduction had been approved, the issue of private bonds rose sharply. The yield on long-term government bonds, which had declined from almost 7½ per cent. late in 1957 to about 5¼ per cent. in the spring of 1959, rose temporarily in the autumn but thereafter decreased steadily, reaching the preceding year's low by the spring of 1960. In late 1959 and early 1960, as a liquidity-absorbing measure, the authorities placed some \$230 million at the disposal of the banks to be used for the purpose of reducing their net foreign indebtedness.

In Switzerland bank advances rose substantially in 1959, nearly one-half of the increase having occurred in the final quarter. The banks' total deposit liabilities, on the other hand, did not go up nearly so much as in the preceding year — a result ascribable mainly to an exceptionally heavy out-flow of capital but also to the fact that the Confederation did not, as in 1958, make large net repayments of publicly-held debt.

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
in millions of Swiss francs							
1957	+ 250	+ 1,975	+ 410	+ 155	+ 445	+ 790	+ 65
1958	+ 1,290	+ 1,865	+ 690	+ 300	- 240	+ 835	+ 495
1959	+ 410	+ 1,695	- 10	+ 50	+ 1,265	+ 895	+ 270
Outstanding at the end of 1959 . . .	8,605	24,985	2,775	2,785	9,720	15,505	3,325

In spite of the high and rising level of economic activity late in 1959, the National Bank held its discount rate at 2 per cent. in order to help to keep interest rates low in relation to those in other countries, thus contributing to the export of a considerable amount of short-term funds during the year. In addition, the National Bank followed a liberal policy in considering requests put to it for permission to float foreign issues on the domestic capital market, these having amounted in 1959 to Sw.fcs. 480 million, against Sw.fcs. 135 million in 1958 and only Sw.fcs. 5 million in 1957. Furthermore, direct purchases of securities on foreign markets were made on a large scale in 1959, particularly by the investment trusts. Net domestic issues on the Swiss market increased from Sw.fcs. 285 million in 1958 to Sw.fcs. 925 million in 1959, notwithstanding the sizable exports of capital. These figures do not take into account, moreover, the private placing of new issues, which, on a gross basis, rose over the same period from Sw.fcs. 810 million to Sw.fcs. 960 million.

The yield on Federal Government bonds, which reached a low of 2.83 per cent. in April 1959, moved intermittently upwards to stand at 3.13 per cent. in April 1960. The rate on new and old mortgages, on the other hand, declined in the first half of 1959 and thereafter held steady at about 3¾ per cent., while the rates paid on savings deposits with the cantonal banks followed a similar trend, settling at about 2¾ per cent. After having declined earlier in the year, the rates on time deposits and medium-term savings bonds were raised towards the end of 1959. The National Bank, while refraining from the use of the discount instrument, called upon the banks on several occasions in 1959 to exercise caution in the granting of new domestic credit.

In Austria the expansion of bank deposits, which was even greater in 1959 than in the preceding year, had its counterpart principally in an increase in private and public credit. Cheque accounts with the credit institutions rose by 13 per cent. in 1959, while savings deposits mounted by no less than one-quarter. The increase in commercial credits was the result of a sharp rise in borrowing by all groups save industry proper, whose recourse to bank credit was only slightly greater than in 1958. As, however, the growth in credits

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

Change during	Liabilities		Assets			
	Cheque accounts	Savings deposits	Cash	Treasury certificates	Securities and participations	Commercial credit outstanding
In millions of schillings						
1957	+ 1,197	+ 4,079	+ 874	+ 654	+ 971	+ 3,530
1958	+ 2,163	+ 4,656	+ 2,026	+ 1,707	+ 1,086	+ 3,220
1959	+ 2,469	+ 5,574	+ 478	+ 1,105	+ 2,394	+ 5,595
Outstanding at the end of 1959	21,200	26,828	7,048	5,477	10,621	37,180

still did not match the rise in deposits, the credit institutions invested heavily in securities and again increased their holdings of Treasury certificates.

Owing to the extensive fiscal measures taken to combat recessionary tendencies, the Federal Government's budget deficit rose from Sch. 1.25 milliard in 1957 to Sch. 5.5 milliard in 1958, and in 1959, at Sch. 3.9 milliard, it was again high. Whereas in 1958 most of the deficit was financed by borrowing from abroad, in 1959 the growing liquidity of the economy rendered the capital market much more receptive to public issues. Indeed, total new funds raised on the market, after having jumped from Sch. 1.6 milliard in 1957 to Sch. 3.1 milliard in 1958, increased again to reach Sch. 4.8 milliard in 1959. Sch. 3 milliard of this total was accounted for by two large issues by the Federal Government, the first of which, a twenty-year issue for Sch. 1.8 milliard, was sold at par to yield 7 per cent., while the second, a fifteen-year issue for Sch. 1.2 milliard, had a nominal yield of 6¼ per cent. and was sold at 98.

In the spring of 1960 the National Bank took two measures to restrain the growth of credit. Firstly, the discount rate, which had been reduced to 4½ per cent. one year earlier, was raised in March to its old level of 5 per cent. Secondly, the minimum cash reserve requirement of 5 per cent. in respect of all kinds of deposits was increased to 7 per cent. for savings deposits and 9 per cent. for cheque accounts, these changes having been calculated to absorb bank liquidity to the extent of Sch. 1.3 milliard.

In Norway a large decline in purchases of new ships from abroad contributed to a significant reduction in the private sector's financial deficit, as well as in the current-account balance-of-payments deficit. At the same time, private saving as a whole increased appreciably, while investment other than in shipping remained practically unchanged.

Norges Bank's net purchases of foreign exchange from private-sector banks amounted to N.Kr. 505 million in 1959; the liquidity effects of these purchases were, moreover, slightly augmented (by N.Kr. 38 million) as a result

Norway: Saving, investment and changes in financial assets and liabilities, by sectors, 1958-59.

Items	Years	Private sector	Public sector	Rest of the world
		in millions of Norwegian kroner		
Net saving	1958	2,343	2,298	
	1959	2,525	2,059	
Net investment	1958	4,106	1,631	
	1959	3,520	1,704	
Financial surplus or deficit (—)	1958	— 1,763	667	— 1,096 ¹
	1959	— 995	355	— 640 ¹
Corresponding to changes as follows				
Financial assets	1958	+ 884	+ 1,041 ²	+ 329 ³
	1959	+ 1,585	+ 821 ²	+ 350 ³
Financial liabilities (Increase —)				
Domestic	1958	— 1,383	— 269 ²	
	1959	— 1,730		
Foreign	1958	— 1,264	— 467 ²	— 1,425 ⁴
	1959	— 850		

¹ Balance of payments on current account. ² Includes only identifiable changes on central government account. ³ Changes in gold and foreign exchange reserves only. ⁴ Net capital transactions.
Source: Ministry of Finance, The National Budget 1960.

of the bank's net domestic transactions with the economy, excluding the central government. The total increase of N.Kr. 543 million in central-bank funds arising out of these operations compares with one of N.Kr. 479 million in 1958. Fiscal policy, moreover, was less restrictive in 1959 than in 1958, the public sector's financial surplus having fallen from N.Kr. 667 million to N.Kr. 355 million, mainly as a result of tax reductions and a rise in public investment expenditure. Owing to the growing liquidity of the financial markets, however, the government increased its net borrowing from N.Kr. 269 million in 1958 to N.Kr. 467 million in 1959, largely through the sale of longer-term issues to financial institutions. The funds thus obtained were almost sufficient to cover its loans to the state banks, which rose in 1959 to N.Kr. 536 million. On balance, the government's financial surplus, together with its other financial transactions, caused a net withdrawal of liquidity amounting to N.Kr. 285 million in 1959 (against N.Kr. 595 million in 1958), which took the form mainly of an increase in its deposits with the central bank.

In the private sector, the net acquisition of financial assets amounted in 1959 to almost N.Kr. 1,600 million — i.e. N.Kr. 700 million more than in 1958. The total deposit liabilities of the commercial and savings banks, after having risen by only N.Kr. 105 million in 1958, advanced sharply by N.Kr. 675 million in 1959. In addition, saving by insurance companies increased moderately, and there was also an unusual rise, from N.Kr. 90 million to N.Kr. 240 million, in the sector's purchases of securities. On the other hand, the increase of N.Kr. 1,730 million in the private sector's domestic liabilities exceeded that in 1958 by only N.Kr. 350 million, or just half as much as the rise in the acquisition of financial assets.

Previous measures of monetary restraint were considerably modified in 1959. The ceiling on bank lending was removed and the extent of the obligatory participation of the savings banks and life assurance companies in government loans was reduced. The buoyancy of demand on the bond market reflected not only the large growth in funds placed with the financial institutions but also the existence of a wide gap between the creditor interest rates of the banks, which on time and savings deposits are about 2½ to 3½ per cent., and the yields on long-term government bonds, which stood at about 5 per cent. throughout most of the year.

In Sweden the liquidity position of business enterprises improved considerably in 1959. Profits appear to have increased, while gross investment lagged behind, not on account of fixed investment, which in fact rose as a result of stimulative fiscal measures, but because of a large amount of destocking, mainly in the first part of the year. The consequent reduction in the enterprise sector's financial deficit accounted for more or less the whole of the estimated increase from S.Kr. 50 million to S.Kr. 1,250 million in the financial surplus of the private sector.

The financial deficit of the public authorities is estimated to have increased from S.Kr. 300 million in 1958 to S.Kr. 1,100 million in 1959, most of the deterioration having taken place in the central government's position. Owing, moreover, to a rise in its loans to other sectors, the central government's total financing requirements went up even more, its total borrowing on the credit markets having risen from S.Kr. 1,020 million in 1958 to

Sweden: Formation of the money supply.*

Items	1957	1958	1959	Out- standing at the end of 1959
	in millions of Swedish kronor			
Changes in the money supply				
Currency	+ 242	+ 219	+ 207	6,266
Demand deposits	— 83	— 61	+ 745	2,733
Total	+ 159	+ 158	+ 952	8,999
Changes in corresponding items				
Gold and foreign exchange	+ 73	+ 153	+ 56	3,047
Claims on the public authorities (net) on the private economy	+ 1,332 + 178	+ 1,119 + 864	+ 1,477 + 1,433	10,997 13,187
Total claims	+ 1,510	+ 1,983	+ 2,910	24,184
Increase in time and savings deposits (—)	— 1,256	— 1,785	— 2,219	—16,217
Other items	— 168	— 193	+ 204	— 2,015
Grand total	+ 159	+ 158	+ 952	8,999

* 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.

S.Kr. 1,920 million in 1959. Although the proportion of this larger total which had to be financed by the banks was appreciably smaller than in 1958, the banking system as a whole increased its holdings of public-sector claims (including those against local authorities) by over S.Kr. 1,475 million, of which almost S.Kr. 350 million represented government securities taken up by the Riksbank.

Commercial-bank credit to the private economy increased in 1959 by S.Kr. 1,433 million, or more than 12 per cent. Well over three-quarters of this total, however, was accounted for by credit to trade and services, communications, housing and private persons, bank credit to industry proper having shown virtually no rise. The Riksbank's net acquisition of government securities, although large, was not sufficient to compensate the liquidity-reducing effect of an increase in the currency circulation and a net reduction in its holdings of gold and foreign exchange. In consequence, the commercial banks' borrowing from the central bank rose during the year. The total claims of the banks increased by S.Kr. 2,910 million in 1959, or by 13½ per cent. This development was paralleled by a roughly comparable movement in the total lending of other financial institutions, which rose from S.Kr. 2,525 million in 1958 to S.Kr. 3,400 million in 1959.

Since a rapid credit expansion was already under way in the first half of 1959, the Riksbank decided in July to raise the commercial banks' liquidity ratios. Whereas, for instance, the largest banks had been obliged to hold at least 33 per cent. of their liabilities (excluding savings deposits) in such assets as cash, government securities and mortgage bonds, the minimum ratio was thenceforth to be 40 per cent. In the latter half of 1959 the minimum liquid assets ratio of the large banks was raised to 45 per cent., while the official discount rate was put up from 4½ to 5 per cent., the banks having agreed at the same time, as a contribution towards widening the differential between deposit rates and capital-market yields, to limit the increase in rates on the longest-term deposits to ¼ per cent. As a further step in the same direction, the government in April 1960 issued a fifteen-year loan (convertible after ten years) at 5½ per cent., the terms thus being the most favourable for several decades. The issue was highly successful, yielding S.Kr. 1,074 million in subscriptions and arousing considerable public interest.

In Denmark the principal restraint upon the rapid growth of demand in 1959 was the re-emergence of a large cash-budget surplus, which enabled the central government, through an improvement in its accounts with the central bank, to sterilise D.Kr. 476 million. This change, together with a large outflow of currency into circulation, much more than offset the effect on bank liquidity of Denmark's Nationalbank's net purchases of foreign exchange, which amounted to D.Kr. 506 million.

Bank advances, although they already went up a good deal in the first half of 1959, began to expand much more rapidly in the second half. Through its open-market operations the central bank began in the course of

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

Factors	1957	1958	1959
	In millions of Danish kroner		
Operating transactions			
Note circulation (increase —)	— 60	— 210	— 250
Government accounts with the central bank	— 133 ¹	— 157 ²	— 476
Net foreign exchange purchases	104 ¹	797 ²	506
Other transactions	21	— 41	41
Total 1	— 68	389	— 179
Credit transactions			
Securities	— 4	20	— 74
Deposit certificates	—	— 524	74
Advances	64	86	140
Total 2	60	— 418	140
Changes in commercial and savings-bank deposits with the central bank (1+2)	— 8	— 29	— 39

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.

1959 to bring the banks' liquidity position under an increasing degree of pressure, its net sales of securities in the second half of 1959 having amounted to D.Kr. 117 million, against net purchases of D.Kr. 43 million in the first half. The banks were therefore increasingly obliged to have recourse to central-bank funds, both by obtaining advances and by reducing their holdings of deposit certificates. The discount rate was raised from 4½ per cent. to 5 per cent. in September 1959 and again to 5½ per cent. in January 1960, by which time the exchange reserves had begun to decline. Compared with earlier years, capital-market activity was considerable both in 1958 and in 1959. Although the volume of government bonds outstanding rose only slightly, that of other bonds, consisting mainly of mortgage issues, went up by about 10 per cent. in each of the two years. Partly as a result of the central bank's security sales, the yield on 4½ per cent. government bonds (1997) rose from a low of 5.25 per cent. in February 1959 to 5.86 per cent. in March 1960.

In Finland the central bank's net acquisitions of gold and foreign exchange, although not so large as in the preceding year, had a much greater expansionary effect on private and bank liquidity. In 1958 a large part of the economy's net exchange proceeds had been sterilised through the application of an export levy (abolished in September of that year), whereas in 1959 a net drawing was made from the export-levy fund in order to grant special loans to the domestic economy. As there was also a sharp acceleration of credit demand in the second half of 1959, demand deposits with the credit institutions increased by no less than 23 per cent., while time and savings deposits went up by 18 per cent.

Finland: Formation of the money supply.¹

Items	1957	1958	1959	Out- standing at the end of 1959
	in milliards of markkas			
Changes in the money supply				
Currency	+ 1.8	+ 4.5	+ 3.2	61.0
Demand deposits	+ 1.0	+ 7.6	+ 15.3	82.0
Total	+ 2.8	+ 12.1	+ 18.5	143.0
Changes in corresponding items				
Gold and foreign exchange (net)	+ 11.6	+ 32.5	+ 19.6	90.1
Claims on the public authorities (net)	- 0.1	+ 6.9	+ 2.5	54.4
on the private economy	+ 21.9	+ 27.7	+ 64.1	537.8
Total claims	+ 21.8	+ 34.6	+ 66.6	592.2
Increase in time and savings deposits (-)	- 12.0	- 46.2	- 69.1	- 454.3
Other items ²	- 18.5	- 8.9	+ 1.4	- 85.0
Grand total	+ 2.8	+ 12.1	+ 18.5	143.0

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.

The commercial banks considerably increased their liquidity in 1959. During the year they reduced their rediscounts with the central bank from FM 18.7 to 4.7 milliard, built up their deposit accounts with the Bank of Finland by FM 2.4 milliard and took over a large part of the Bank of Finland's direct loans to private customers. After a reduction from 7¼ per cent. to 6¾ per cent. in the spring of 1959 no further change was made in the central bank's basic rediscount rate. In October the Bank of Finland urged the commercial banks to follow a more cautious lending policy and further to increase their liquidity, partly by investing in short-term foreign assets. In December it announced that the amounts rediscountable without payment of a penalty rate would be reduced from 60 to 30 per cent. of the funds of the banks concerned.

In Yugoslavia, where investment rose steeply in 1959, there was a considerable increase in the financing requirements of socialist enterprises. Actual borrowings rose to an even greater extent, having exceeded the sector's financial deficit by a margin of more than Din. 100 milliard, which in turn was reflected in a building-up of liquid and non-liquid deposits. From the liquidity point of view, however, these deposits do not have the significance of those in a market economy, since both liquid and non-liquid bank accounts, through which all the financial transactions of enterprises must be made, are "purposive" in character and can be drawn upon only for prescribed uses.

For the most part borrowing by socialist enterprises took the form of long-term loans from the investment loan funds. In 1959 the increase in the ordinary resources of these funds (i.e. their financial surplus) did not match the growth in their lending activity, which therefore had to be financed in

Yugoslavia: Changes in financial assets and liabilities, by sectors, 1958-59.

Items	Years	Households ¹	Socialist enterprises	Investment funds	Government	Others	Rest of the world
Financial surplus or deficit (—)	1958	32	—330	315	49	—114	—48 ²
	1959	32	—431	356	41	—47	—49 ²
Corresponding changes in financial assets (increase +) and liabilities (increase —)							
Currency	1958	16	—	—	—	—	—
	1959	34	—	—	—	—	—
Sight deposits	1958	15	3	—21	8	16	—
	1959	20	52	9	17	20	—
Non-liquid deposits	1958	—	11	56	29	—11	—
	1959	—	50	16	—30	25	—
Bank credit	1958	1	—89	1	8	—27	—
	1959	—22	—191	—49	54	—17	—
Investment loan funds	1958	—	—241	279	4	—42	—
	1959	—	—336	380	—	—44	—
Other sources of finance	1958	—	—14	—	—	—50	—
	1959	—	—6	—	—	—31	—

¹ Includes individual enterprises. ² Balance of payments on current account (cash basis).

part by credit from the banking system. The investment loan funds, of which the centralised General Investment Fund is the most important, constitute the principal instrument of investment planning in Yugoslavia. They customarily acquire most of their loanable resources from taxes and contributions levied upon enterprises, while the scale and direction of their lending is determined by a process of competitive enterprise bidding in which broad economic and social criteria (e.g. investment costs, capital/output relationships, balance-of-payments considerations, the investor's share in total costs, etc.) play the decisive rôle. In addition to the credits received from the investment loan funds, socialist enterprises were granted new bank credit, mainly for investment in inventories, on a scale twice that of the preceding year. The rate of expansion of bank credit, although unusually high in 1959, did not exceed the growth in the real social product. As about half the increase in bank deposits was channelled into non-liquid accounts, the money supply, as conventionally defined, rose somewhat less than the social product.

* * *

In 1958 the unusually large influx of foreign exchange into most western European countries had as its counterpart an increase not only in the liquid-asset holdings of the public but — still more important — also in the credit base of the money-creating institutions. Thus in 1959 the beginning of a second phase of monetary adjustment was witnessed as domestic demand for credit revived and intensified, particularly towards the end of the year. The fact that the expansion in private credit demand went side by side in some cases with a substantial further increase in foreign exchange reserves and

in others with sizable budget deficits often contributed to an even greater rise in the public's liquid-asset holdings than in 1958, while at the same time leaving the banks in a strong liquidity position.

It is easier to predict how changes in liquidity will affect the ability of the public to spend than how they will influence its willingness to do so. At all events in western Europe, where the investment outlook at the present time seems more buoyant than in the United States, the liquidity of the public, and of companies in particular, has tended to weaken the potential effect of measures of monetary restraint upon spending. As regards the credit institutions, a number of central banks have already done much to bring their liquidity under control, but even in these cases there are practical — and sometimes legal — limits to what can be done. It is therefore a good sign that in certain countries the budget plans for 1960 tend to be somewhat more restrictive. In view of the present strength of their external finances, a number of countries now find themselves with a greater amount of elbow-room in the formulation of domestic economic policies than at any other time since the war. Paradoxically, it is just for this reason that greater care may be needed to ensure that the present expansion of demand does not concentrate itself within too short a period, thereby reducing the chances of sustained and balanced growth.

IV. Domestic and World-Market Prices.

In 1959 international raw-material prices remained roughly stable and so did freight rates; at the same time the fuller utilisation of capacity increased productivity; and as wages, in contrast to what happened in a number of preceding years and may happen again in the not far distant future, rose on the whole less than productivity, costs per unit of output fell. At the same time the high level of demand, together with the lack of effective competition in some industries in a quasi-monopolistic position, prevented a general fall in prices. Since cost reductions were not passed on to consumers in the form of lower prices, there was an increase in profits; and this played an important part in financing investments, which might otherwise have been smaller (unless consumers, benefiting from the lower prices, had saved correspondingly more).

Although prices did not decline in 1959, they did not rise much either. The index of consumer prices fell slightly in some of the smaller countries but rose in the majority of cases; with a few exceptions, however, for which special factors were responsible, the rises remained in the neighbourhood of 2 per cent. or below, while the increase in wholesale prices was in most countries even smaller.

* * *

An examination of the actual development of wages in 1959 reveals the following characteristic features:

Firstly, of the nine countries shown in the table, which are those for which hourly wage rates are available, all except Austria, Belgium and Denmark registered a smaller increase in these rates than in 1958. This is undoubtedly because the relative stability of the cost-of-living index in 1958 caused cost-of-living adjustments to play little or no part in wage negotiations in 1959; and perhaps also because the relatively unfavourable employment situation in 1958 had a moderating influence on wage claims in 1959.

Secondly, hourly earnings rose more than in 1958 in seven out of the eleven countries for which they are given in the table, and in Austria, Belgium, Germany and the United Kingdom they rose more than hourly wage rates. This is the result, on the one hand, of an increase in the component of hourly earnings represented by overtime, which, in turn, was mainly due to the shortening of the working week without a corresponding reduction in the actual number of hours worked, and, on the other hand, of a shortage of labour, which induced employers to attempt to attract workers away from each other by offering more than the negotiated wage rate. In a few countries, however (Denmark, Italy and Switzerland), hourly earnings rose less than wage rates. In these countries overtime pay and/or the voluntary payment of wage rates above the negotiated rates must have played a smaller rôle in 1959 than in 1958.

Nominal and real wages and earnings.*

Countries	Items	Nominal				Real	
		Increase or decrease (—) during					
		1957	1958	1959	1957-59	1959	1957-59
in percentages							
Austria	Rates	0.6	2.2	6.4	9.4	3.4	2.2
	Earnings	6.9	2.3	8.1	18.3	5.1	10.6
Belgium	Rates	5.7	1.6	3.1	10.7	1.0	5.5
	Earnings	7.9	2.6	3.3	14.4	1.7	9.2
Denmark	Rates	3.4	3.8	9.2	17.2	6.8	10.6
	Earnings	3.3	3.8	8.4	12.8	6.3	7.5
Finland	Rates	.	.	.	.	.	.
	Earnings	3.1	6.1	5.0	15.0	2.6	- 0.3
France	Rates	11.6	8.3	6.7	28.8	0.6	0.5
	Earnings	.	.	.	.	.	.
Germany	Rates	6.3	6.5	4.9	18.8	1.5	10.1
	Earnings	10.1	4.7	7.2	23.6	3.7	14.6
Italy	Rates	2.5	5.5	1.8	10.1	- 0.6	2.5
	Earnings	3.3	5.1	0.4	9.1	- 2.0	1.6
Netherlands	Rates	11.3	3.4	3.3	18.8	0.0	4.7
	Earnings	13.0	1.4	.	.	.	.
Norway	Rates	.	.	.	.	.	.
	Earnings	2.8	6.4	7.9	18.0	7.3	8.0
Sweden	Rates	.	.	.	.	.	.
	Earnings	5.0	4.8	4.8	15.3	3.5	6.3
Switzerland	Rates	2.7	2.7	1.6	7.2	2.2	4.8
	Earnings	4.8	4.4	.	.	.	.
United Kingdom	Rates	5.5	3.6	1.1	10.4	1.1	3.6
	Earnings	6.3	3.2	3.7	13.8	3.7	6.8
Canada	Rates	.	.	.	.	.	.
	Earnings	5.1	3.0	4.1	12.7	3.0	6.3
United States	Rates	.	.	.	.	.	.
	Earnings	2.4	4.3	3.7	10.7	2.2	4.0

* 1959 figures are for the twelve-month period ended November for wage rates in Belgium and for that up to the third quarter for earnings in Denmark.

Thirdly, on account of the slight increase in the cost of living almost everywhere in 1959, real wage rates or earnings per hour rose in most countries somewhat less than nominal rates or earnings, and in Italy there was actually a fall in hourly rates and earnings in real terms.

The moderate wage increases in 1959 cannot be said to have acted as an inflationary force. The simultaneous increases in industrial productivity, which were in many countries greater than the rise in real earnings, the growth in industrial profits and, finally, the readiness of employers in some countries to pay more than the negotiated rates are all factors which go to show that wage increases were not responsible for the — admittedly small — rises in the price level that occurred in 1959.

It is interesting to note that, according to a study made by the French Institute for Statistics and Economic Research, differences between European countries in total costs per man-hour in processing industries (including

social contributions made by the employers) were by April 1959 no longer very great. If these costs are assumed to be 100 in France, the figure for Belgium works out at practically the same and those for the United Kingdom, Switzerland and Germany are found to be only 8 or 9 per cent. higher. In Sweden, on the other hand, the level is as much as 50 per cent. higher, and in the United States wage costs are still almost four times as high, the effects on costs per unit of output being, however, compensated on the whole by correspondingly greater productivity.

It is now generally recognised that the rates of increase in wages, if they are not to be inflationary, must not be allowed to exceed productivity increases. A wage policy tying wages to productivity would not be against the interests of labour, since in any case — unless at the outset profits are exceptionally large, so that real wages can for a while be increased at the expense of profits — increases in wage rates which go beyond the improvement in productivity lead to price rises and thus always tend to reduce the real wage increase to a level which corresponds roughly to the growth in productivity. It therefore seems logical to aim at a wage policy which couples increases in wage rates with those in productivity.

This principle was acted upon in the Netherlands in 1959. Since 5th October 1959 it has been laid down that wage increases granted in contracts subject to the mediation of the Board of Government Mediators must, over the period of the wage contract, conform to the net rise in productivity which is expected to have been achieved by the end of that period in the branch of industry or enterprise in question in comparison with the level on 1st October 1958. This general rule is supplemented by a set of complicated regulations which need not be discussed here. The most interesting aspect of this new policy is the tying of wage increases in each branch or even enterprise to the rise in productivity in that branch or enterprise. Since productivity increases vary widely as between branches of industry, large wage differentials are bound to emerge. While a wage policy which observed the principle — often advocated — that wages should increase in line with average productivity in the economy as a whole would avoid such a widening of wage differentials but would lead to a price rise in the industries with a less-than-average productivity increase and a price fall in industries where the improvement is greater than the average, the Dutch policy is meant to neutralise the effects on prices of the differences between rates of increase in productivity but will result in a corresponding decline in wage costs in industries of the first type and a corresponding rise in those in industries of the second type. The success of this policy naturally depends on the extent to which it is socially acceptable.

As regards prices at consumer level, their upward movement has slowed down both in North America (the United States and Canada) and in western Europe taken as a whole. The rise in consumer prices in the United States, which had amounted to 3.1 per cent. in 1957, was reduced to 1.7 per cent. in the following year and was only 1.5 per cent. in 1959. The same

trend was observable in Canada. In western Europe, taken as a whole, the rate of increase in the cost of living can be estimated to have declined from over 5 per cent. in 1957 to 3½ per cent. in the following year and 2½ per cent. in 1959. In the individual countries, however, the movement was by no means uniform. In 1957 there were nine countries in which the overall price rise was greater than in the preceding year and none in which the cost-of-living index fell; in 1958 the number of countries which experienced price increases greater than those in the previous year was down to four and in one country at least (the Netherlands) prices actually declined; in 1959 prices rose more than in 1958 in seven countries, but in three — Iceland, Ireland and Switzerland — they declined, and in one — the United Kingdom — the price level remained unchanged. The pace of inflation, as measured by the cost-of-living index, has thus, on the whole, slowed down in the last three years.

This impression is strengthened if account is taken of the fact that in some of the countries which experienced a greater increase in the cost-of-living index in 1959 than in 1958 the rise was due to factors which have nothing to do with an excess monetary demand for commodities, so that to this extent it cannot be said to have been an expression of inflationary forces in the usual sense of the term. In the Netherlands, for example, the reduction in food-price subsidies, together with the effect of the drought in 1959, pushed food prices up by 5.9 per cent. — and this was the most

Consumer prices
(total and components).

Countries	Consumer prices				Increase or decrease (—) during 1959			
	Increase or decrease (—) during				Food	Rent	Light and fuel	Clothing
	1957	1958	1959	1960 1st quarter				
	in percentages							
Austria	2.3	1.6	2.9	0.3	4.8	- 2.2	- 0.5	2.6
Belgium	2.9	0.2	1.6	- 0.6	2.0	.	.	.
Denmark	1.3	2.2	2.2	- 0.2	3.7	6.1	- 6.4	2.1
Finland	8.5	3.9	2.3	0.7	1.4	5.4	- 3.0	1.2
France	10.9	6.9	6.1	1.6	4.0	15.0	12.7	4.8
Germany	3.5	0.8	3.4	- 0.2	5.6	1.7	0.7	1.9
Greece	3.0	1.1	2.6	0.5	1.9	13.6	0.5	2.0
Iceland	2.7	11.0	- 4.7	1.0	- 8.0	- 2.3	- 2.9	1.5
Ireland	5.9	2.7	- 1.7	0.4 *	- 4.9	2.3	- 5.8	1.6
Italy	3.7	1.2	2.4	0.0	0.6	18.6	- 0.8	1.8
Netherlands . .	10.8	- 0.6	3.3	0.0	5.9	0.6	0.0	3.5
Norway	2.0	6.5	0.6	0.0	- 1.1	2.9	- 1.3	0.0
Portugal	1.4	1.6	2.5	0.8	3.5	2.6	0.9	1.3
Spain	13.2	11.9	3.8	- 0.9 *	2.4	2.1	.	4.7
Sweden	4.2	2.7	1.3	3.2	3.0	4.7	- 3.7	0.0
Switzerland . .	2.0	0.9	- 0.6	0.2	- 1.9	3.1	- 2.5	- 0.4
United Kingdom	4.6	1.8	0.0	- 0.5	- 0.5	3.3	2.1	0.4
Canada	2.6	2.2	1.1	- 0.8	- 0.6	0.7	0.9	0.9
United States .	3.1	1.7	1.5	0.2	- 0.6	1.5	2.3	1.6

* Up to February.

important single cause of the rise of 3.3 per cent. in the cost-of-living index. In 1960 the index will go up further on account of the increase in rents for houses built between 1918 and 1956, which have been raised by 20 per cent. as from 1st April 1960. In Germany, too, the drought caused an increase of 5.6 per cent. in food prices, which in turn was mainly responsible for the rise of 3.4 per cent. in the overall index. The adoption of a more liberal import policy for food products in the last quarter of 1959, however, helped to bring food prices down again and thus to moderate the rise in the overall index. In Italy the rent component of the cost-of-living index rose by no less than 18.6 per cent. as a result of further adjustments of rents, which have still not fully caught up with the general price increase. In France, where the index went up more than in any other country (6.1 per cent.), though less than in 1958, the rise was also mainly due to the raising of controlled prices, particularly rents, which went up by 15 per cent., and prices for light and fuel, which increased by 12.7 per cent.

Apart from the influence of such special factors on the cost of living in 1959, there is one component in the index which imparts to it an upward bias compared with other price indexes. This component is services, which have a relatively heavy weight in the cost-of-living index but do not directly affect the wholesale-price index and a number of other indexes. The prices of services tend to rise more than the prices of industrial commodities, because the remuneration of those who provide services tends to increase *pari passu* with industrial wages, while the possibilities for increasing productivity in the services sector are very limited. In the countries which have a separate index for services the tendency for the prices of these to rise more than the average is clearly shown. In France the prices of services rose in the four years from 1956 to 1959 by 41 per cent., while the total index went up by only 29 per cent.; in this connection it must be borne in mind that the average index would have risen much less had it not been for the raising of rents by 57 per cent. In Italy services went up by 34 per cent., as against an overall rise of 12 per cent. (and a rise in rents of 111 per cent.). In the United Kingdom services rose by 18 per cent. and the overall index by 10 per cent. (and rents by 30 per cent.). In the United States services rose by 13 per cent. and the overall index by 9 per cent. (while rents in that country, where there was no decontrolling, went up by only 7 per cent.).

In the majority of eastern countries the cost of living fell in 1959. Consumer prices are said to have gone down in Albania by as much as 6 per cent., in Czechoslovakia by 2.7 per cent. and in Bulgaria, Hungary, eastern Germany and the U.S.S.R. by between 1 and 2 per cent. In Poland, on the other hand, consumer prices rose by 3.3 per cent. In the East price changes are made at irregular intervals by the authorities. The changes tend to be selective and are generally, though with certain exceptions, downwards.

On 1st July 1959 a number of price reductions came into force in the U.S.S.R. applying, in particular, to durable consumer goods; they were evaluated, in terms of the annual gain to consumers, at Roubles 6 milliard, which

is equivalent to about 1 per cent. of the retail turnover for that year. On 1st March 1960 another reduction in the prices of various goods was announced, some being cut by as much as 30 per cent.; in this case the gain to consumers was estimated at Roubles 2.5 milliard, or 0.3 per cent. of the planned retail trade turnover for the current year. In Czechoslovakia retail prices have been reduced eight times since the currency reform in 1953. These price cuts are said altogether to have been worth Kčs. 19.3 milliard and, according to official data, have had the effect of lowering the cost of living by approximately 20 per cent. In April 1960 a further cut was made. Among the items affected were foodstuffs, textiles (the prices of which were reduced by between 10 and 20 per cent.), electrical household appliances, television sets and cameras, and also domestic electric current. It is estimated that this will save consumers Kčs. 2.5 milliard per year and that the reductions will be equivalent to 3 per cent. of the earnings of an average industrial worker's family. At the end of October 1959 the authorities in Bulgaria also introduced a number of price reductions. These reductions — which applied mainly to woollen goods — ranged between 7 and 50 per cent.; the total saving to consumers is estimated at about Leva 200 million, or 1 per cent. of annual consumption. In Poland various prices were lowered by between 7 and 40 per cent. as from 4th April 1960 (the list includes shoes, woollen goods, wrist watches, coffee and radio valves). At the same time, however, the prices of some goods manufactured by the metallurgical and electrical engineering industries were increased. On balance, the new price changes are expected to result in an annual saving of almost Zl. 1 milliard for the population as a whole. Although this is quite a substantial amount, it does not compensate for the price rises last year.

Wholesale prices, which in 1958 fell in seven of the eighteen countries included in the table, rose in most countries in 1959; only in three (including the United States) did they decline slightly. In the first quarter of 1960, however, they fell again in nine countries; and such rises as did occur in 1959 and the first quarter of 1960 were small, except in France, where the wholesale-price level, mainly as a result of the devaluation of the franc at the end of 1958, went up in 1959 by 7.4 per cent.

In recent years the level of wholesale prices has tended to rise less than that of consumer prices (the main reasons for the faster upward movement of cost-of-living indexes being, as already mentioned, the increase in controlled prices, notably rents, and in the prices of services — two items which do not directly affect wholesale prices). Except in a few countries (including France and Spain), the wholesale-price index was in the first quarter of 1960 either at practically the same level as it had been three years earlier or (for instance, in Belgium, Italy and Switzerland) a few points lower.

Little is known about changes in wholesale prices or the prices at which products are delivered to retailers in eastern countries, except in the case of Poland, where a reform is to be carried out on 1st July 1960 whereby selling prices in all industries will be fixed according to production costs, the

Wholesale prices.

Countries	Increase or decrease (—) during			
	1957	1958	1959	1960 1st quarter
in percentages				
Austria	— 1.8	0.6	1.4	0.2
Belgium	0.5	— 5.4	2.2	— 0.2
Denmark	— 2.9	0.0	1.0	— 1.0
Finland	13.8	— 0.9	2.5	1.0
France	13.9	1.5	7.4	— 0.5
Germany ¹	0.8	0.0	0.0	0.0
Greece	— 1.4	— 1.3	1.3	0.9
Ireland	7.9	1.2	— 0.4	.
Italy	— 1.3	— 4.1	0.7	— 0.5
Netherlands	— 0.7	0.0	0.0	— 2.8
Norway	0.0	— 0.9	0.9	0.0
Portugal	— 2.6	1.8	0.9	1.7 ²
Spain	13.6	7.5	— 0.6	— 1.3 ²
Sweden	— 0.7	— 1.4	2.8	— 0.7
Switzerland	— 1.2	— 3.9	0.9	— 0.4
United Kingdom ³	1.4	0.5	0.1	0.1
Canada	— 0.8	1.4	0.2	— 0.1
United States	1.9	0.6	— 0.3	0.9

¹ Producer prices. ² Up to February. ³ Manufactured goods.

intention being to eliminate the present complex system of state subsidies to individual enterprises. But this reform is not expected to have any appreciable effect at the consumer level, since the necessary adjustments in producers' prices are to be made within the very large margin existing between them and consumer prices.

For some years — except during the short-lived Suez boom — freight rates have been low, with perhaps a slight tendency to decline further. After a brief rise in the last quarter of 1959, a fresh decline took place at the beginning of 1960. The stable and low cost of sea transport is important for a number of goods, in particular bulky raw materials, and has helped to keep the prices of imported materials fairly steady.

In the course of the economic upswing in recent years the volume of goods transported by sea has risen greatly. Between 1953 and 1959 it expanded by 45 per cent. (in the case of dry goods by 34 per cent. and in that of petroleum by as much as 59 per cent.) and since 1948 it has actually doubled. But although the demand for shipping space has increased, the shipping space available has increased even more, especially if the greater "velocity of circulation" of the ships is taken into account. Recently new and faster ships have been built and obsolete tonnage has been withdrawn; and still more ships are under construction. Although the volume of shipbuilding reached its post-war peak at the end of 1958 and has since declined in the case of both merchant ships and tankers, such circumstances have necessarily

Volume of sea transport and shipping tonnage.

Years	World sea-borne trade			World tonnage		
	Dry cargo	Oil	Total	Dry cargo	Tankers	Total
	in millions of tons					
1953	385	295	680	68.6	22.0	90.6
1957	540	420	960	77.0	29.8	106.8
1958	510	440	950	81.1	33.4	114.5
1959	515	470	985	83.7	37.7	121.4

Note: Sea-borne trade (metric tons) including U.S. and Canadian lake transport; tonnage (mid-year figures in gross registered tons) excluding U.S. and Canadian lake fleets but including U.S. reserve fleet estimated at 14 million gross registered tons in 1958 and 1959.

had a depressing influence on freight rates, and since the available shipping space is likely to increase more than the volume of goods transported, there is no prospect, as far as can be seen at present, of a change in the freight-rate position. Furthermore, in the case of petroleum the increased use of pipelines as a means of transport is reducing the need for tankers. In view of this situation it is not surprising that the so-called Average Freight Rate Assessment, an index calculated as a weighted average of all current charter rates for tankers, which stood at 95 (1953 = 100) before the Suez crisis and at 98 in the middle of 1957, has been falling continuously since then and was below 80 by the end of 1959. Nevertheless, there have been temporary rises in some categories of freight rates. For example, the freight index for coal, which reached its "low" in March 1959, when the coal crisis was at its height, had almost doubled by the end of the year, having risen from 63 to 112 (1953 = 100); since then, however, these rates have fallen again and in March 1960 the index stood at 80. But such ups and downs of special freight-rate quotations, reflecting a particular situation in a particular line of transport, are not typical of the general tendency, which is dominated by the overall position of supply and demand.

* * *

International commodity prices, after falling sharply in 1957, have since remained practically stable. For 1958 the main indexes showed declines varying between $\frac{1}{2}$ and $2\frac{1}{2}$ per cent. In 1959 the spread between them widened, ranging from a decline of 3.4 per cent. in Moody's Index to a rise of 4.9 per cent. in Reuter's Index.

Within each index, too, as may be seen from the second part of the next table, the range of fluctuation in 1959 was wider than in the preceding year. The greater variability of Reuter's Index compared with Moody's is partly attributable to the fact that the latter covers mostly dollar commodities whose prices are administered by producers or supported by the government, while the former is mainly concerned with non-dollar commodities which are priced in the open market or by auction. Another point of interest brought out by the table is the different behaviour, in 1959 and the early months of 1960, of the prices of foodstuffs and those of industrial raw materials,

International commodity prices.

Years	Moody	Reuter	Financial Times	Schulze: World Market Prices		
				Total	Food	Industrial raw materials
percentage changes						
1956	+ 8.7	+ 3.0	- 2.8	+ 5.1	+ 7.5	+ 4.1
1957	- 11.5	- 15.8	- 9.1	- 8.7	- 7.9	- 9.1
1958	- 0.5	- 2.3	- 2.5	- 1.2	- 0.1	- 1.8
1959	- 3.4	+ 4.9	+ 4.3	+ 2.5	- 3.0	+ 5.2
1960 1st quarter	+ 1.6	- 1.0	+ 0.9	- 0.6	- 1.9	+ 0.1
range of index fluctuations, high above low, in percentages						
1957	15.6	19.9	11.0	10.0	9.9	10.2
1958	4.9	4.7	5.9	2.0	3.1	3.1
1959	5.6	7.1	8.3	3.6	2.9	5.2

reflecting, on the one hand, the expansion in the volume of agricultural output (in the presence of inelastic demand in the richer countries and very low purchasing power in the poorer ones) and, on the other hand, the effect on raw-material markets of the acceleration in the tempo of industrial activity all over the world.

Broadly speaking, the prices of basic commodities, after having shown a declining tendency throughout the last nine years, now appear to have become stable round about the average overall levels reached at the end of 1959 and early in 1960. This development is basically due to the fact that the increase in the supply of agricultural products and industrial raw materials met a demand that rose much less than personal incomes and industrial production, owing, in the case of foodstuffs, to the low income elasticity of demand and the reduction in wastage made possible by modern preservation processes and, in the case of raw materials, to structural changes in the industrial process, such as the increased use of synthetic materials.

At the same time the output of basic commodities is steadily increasing. In some cases the increases have been very substantial. Investments for purposes of mechanisation, automation and the introduction and extension of new techniques and "know-how" have also been made in agriculture, the mining and quarrying industries, the basic energy sector and other fields. The resultant higher productivity makes it possible for more than one target to be attained at the same time; for example, higher physical output, the closure of marginal mines and price stability may be combined with good returns for the investors and entrepreneurs and better living conditions for the workers.

Recently, but particularly since 1958, two factors have helped to keep basic commodities in abundant supply — factors which in the past have, at least occasionally, operated in the opposite direction. Firstly, official stock-piling was practically discontinued in 1957 and gave place in one country after another to stock-liquidation, while government procurements have been

Estimates of world production of basic commodities.

Commodities	Units	1937	1958	1959 (pre- liminary)	Percentage change in 1959 in relation to	
					1937	1958
Aluminium ¹	1000 tons	493	3,544	4,072	+ 726	+ 15
Natural gas	million m ³	80	410	435	+ 444	+ 6
Man-made fibres	1000 tons	835	2,697	3,077	+ 269	+ 14
Hydro-electricity	million kWh	192	600	660	+ 263	+ 10
Cement	million tons	62	260	290	+ 254	+ 12
Crude oil	million tons	280	908	977	+ 249	+ 8
Rubber, natural	1000 tons	1,229	1,989	2,098	+ 239	+ 5
Rubber, synthetic	1000 tons	63	1,845	2,285		+ 24
Brown coal	million tons	252	614	620	+ 146	+ 1
Nickel ²	1000 tons	119	228	278	+ 134	+ 22
Steel	million tons	136	270	305	+ 124	+ 13
Soya beans	million tons	13	27	26	+ 107	- 5
Manganese ore	million tons	6	12	12	+ 100	± 0
Sugar	million tons	25	50	50	+ 100	± 0
Coffee, green	1000 tons	2,409	3,674	4,570	+ 90	+ 24
Mercury	tons	4,590	8,224	8,400	+ 83	+ 2
Zinc ¹	1000 tons	1,636	2,840	2,944	+ 80	+ 4
Copper ³	1000 tons	2,534	4,038	4,184	+ 64	+ 3
Maize	million tons	121	186	199	+ 64	+ 7
Fats and oils ⁴	million tons	19	29	30	+ 61	+ 6
Jute	1000 tons	1,965	2,990	3,100	+ 58	+ 4
Hard fibres	1000 tons	529	781	836	+ 58	+ 7
Cotton	1000 tons	6,594	9,677	10,200	+ 55	+ 5
Rice, rough	million tons	151	235	230	+ 52	- 2
Tungsten (60%WO ₃)	1000 tons	39	58	58	+ 49	± 0
Hard coal	million tons	1,300	1,820	1,880	+ 45	+ 3
Wool, greasy	1000 tons	1,718	2,419	2,490	+ 45	+ 3
Wheat	million tons	187	255	240	+ 44	- 6
Lead ¹	1000 tons	1,692	2,271	2,213	+ 31	- 3
Cocoa	1000 tons	732	780	900	+ 23	+ 15
Tin ¹	1000 tons	205	175	168	- 18	- 4

¹ Smaller production. ² Metal content of mine production. ³ Refinery production. ⁴ Oil equivalent.
 Note: Tons are metric tons. Pre-war data for agricultural products are 1934-38 or 1935-39 averages.

greatly reduced by the shift from conventional to modern weapons of warfare. Secondly, the intervention of the U.S.S.R. and other communist countries in world markets, which originally consisted almost entirely of over-the-counter purchases, has in recent years taken the form of an expanding volume of sales.

If the aggregate changes in the volume of output of basic commodities are calculated by valuing at constant (1958) prices the quantitative data given in the preceding table, it is found that the volume of foodstuffs produced rose by only ½ per cent. in 1959 (because of the adverse weather conditions), while the output of textile fibres and rubber went up by 10 per cent. and that of fuels and metals by 6 and 11 per cent. respectively. Altogether, production of these commodities increased by 5 per cent. in 1959. The bulk of agricultural and industrial raw-material output is accounted for by only five commodities, namely steel, coal, crude oil, wheat and rice. In terms of value, the production of these five commodities represents nearly three-fifths of total output, the share of each being more or less the same.

Coal production increased slightly in 1959. The difficulties in the coal industry, which affected mainly western Europe and are attributable to structural shifts in fuel consumption, reached their climax early in 1959 but

Main producers of five basic commodities.

Commodities and countries or areas	Pre-war ¹	1957	1958	1959 ²
	in millions of metric tons			
Steel				
Coal and Steel Community	34.2	59.8	58.0	63.1
United Kingdom	13.2	22.0	19.9	20.5
Other western European countries	2.3	8.8	8.7	10.0
United States	51.4	102.3	77.3	84.8
Eastern Europe	6.7	16.2	16.9	18.5
U.S.S.R.	17.8	51.0	54.9	59.9
All other countries	10.4	29.9	34.3	48.2
World total	136.0	290.0	270.0	305.0
Hard coal				
Coal and Steel Community	240	248	246	235
United Kingdom	244	227	219	209
Other western European countries	6	17	18	17
United States	448	469	389	387
Eastern Europe	88	124	126	132
U.S.S.R.	110	327	350	360
All other countries	164	319	472	540
World total	1,300	1,730	1,820	1,880
Crude oil				
United States	173	353	330	347
Venezuela	27	145	139	147
Middle East	16	178	214	231
Eastern countries	36	113	128	148
Others	28	93	97	106
World total	280	882	908	977
Wheat				
United States	19.5	25.9	39.8	30.4
Canada	7.2	10.1	10.2	11.5
Argentina	6.6	5.8	6.7	5.0
Australia	4.2	2.7	5.8	3.9
Europe	46.0	62.2	59.8	82.6
U.S.S.R.	38.1	55.0	75.3	70.0
China	22.8	23.6	29.0	27.0
Others	22.6	34.7	28.4	29.6
World total	167.0	220.0	255.0	240.0
Rice				
India	32.3	37.8	45.3	44.3
Japan	11.5	14.3	15.0	15.6
Pakistan	11.2	12.9	12.0	12.7
Indonesia	9.6	11.4	11.8	12.0
Thailand	4.4	5.7	7.1	7.5
Burma	7.0	5.2	6.6	7.0
China	50.5	86.6	100.0	90.0
Others	24.5	36.1	37.2	40.9
World total	151.0	210.0	235.0	230.0

¹ 1937 or 1934-38. ² Preliminary.

have now become less acute. As a result of the measures of readjustment taken and also of the revival in economic activity, coal stocks have ceased to grow. Production in the European Coal and Steel Community and in the United Kingdom declined further in 1959 — by some 10 million tons in each case — but there was a roughly similar increase, on the other hand, in coal production in eastern Europe and the U.S.S.R.

After the decline in steel production in 1958, which had been particularly marked in the United States (where output decreased by 25 million

tons), the position changed radically in 1959, owing to the renewed industrial expansion. Output of steel in western Europe was stepped up from 87 to 94 million tons, the main increase — of over 5 million tons — having occurred in the E.C.S.C. In the United States, production, although severely hampered by the four-month strike, showed a similar rise but, at 85 million tons, was still far below its 1956 and 1957 level of over 100 million tons. Steel production in eastern Europe went up by approximately 10 per cent., the output of the Soviet Union being more than three times as great as that of the smaller eastern European countries taken together.

Crude oil production is continuously increasing. In the United States, which accounts for fully one-third of the world total, the decline registered in 1958 was nearly made good. The American continent is nowadays responsible for about 60 per cent. of total oil production; before the war its share was over 75 per cent. The Middle East produces about 25 per cent., and an increasing proportion of total supplies (at present 15 per cent.) comes from the Soviet area.

Crops of wheat and rice were smaller in 1959 than in 1958. These two agricultural products are still the most important staple foodstuffs, but although the volume of foreign trade in rice is large and that in wheat greater still, sales on the world market represent only a fraction of total consumption (perhaps one-tenth in the case of wheat and 4 per cent. in that of rice). In the four major wheat-exporting countries, namely the United States, Canada, Argentina and Australia, the crop was 12 million tons smaller in 1959 than in the previous year, but nevertheless the stocks of unsold wheat in the calendar year 1959 were reduced by only 3.5 million tons. In the case of rice Asia accounts for the greater part of both production and consumption.

Generally speaking, the period under review was a time of adjustment or consolidation for most of the individual commodity markets. The high level of industrial production all over the world stimulated consumption of metals, whose prices had risen by the spring of 1960 to levels between 3 and 5 per cent. above those reached twelve months earlier. The increase in the price of copper was the outcome of rather wide fluctuations connected with the most extensive strike in the history of the U.S. copper industry. The reversal of the supply/demand relationship for this metal over the past four years, however, enabled the world copper market to avoid serious dislocations. In 1959-60 the market position of zinc and lead improved somewhat. In the case of zinc the improvement was the result of a strengthening of demand combined with some production cuts; in that of lead, restrictions on production in the United States relieved the market — to some extent at least — from the pressure of over-production. Following the violent price movements in 1958-59, quotations for tin moved within much narrower limits in the period under review. The range of price fluctuations, which reached (in London) £139 per long ton in the former period, did not exceed £20 in the latter. Among the other metals aluminium became moderately dearer, while the price of mercury declined somewhat.

Changes in the prices of basic commodities.

Commodities	Markets	Percentage changes during			
		1957	1958	1959	1960 1st quarter
Materials of industrial origin					
Crude oil.	Bradford, Pa.	- 0.6	- 15.1	+ 11.4	+ 3.4
Crude oil.	Venezuela	+ 14.2	± 0.0	- 8.2	± 0.0
Coal	United States	+ 2.3	- 5.0	- 1.8	- 0.2
Copper.	New York	- 33.8	+ 20.6	+ 14.0	- 0.2
Tin	New York	- 11.5	+ 7.1	+ 0.2	+ 1.0
Lead	New York	- 18.8	± 0.0	- 3.7	- 4.2
Zinc	St. Louis	- 25.9	+ 15.0	+ 8.7	+ 4.0
Steel bars	Antwerp	+ 4.4	- 23.7	+ 15.6	± 0.0
Steel, section	Pittsburgh	+ 5.6	+ 4.2	± 0.0	± 0.0
Aluminium ingots.	United States	+ 3.7	- 4.6	+ 1.7	+ 3.1
Mercury	New York	- 11.8	- 2.1	- 2.9	± 0.0
Rubber, synthetic.	New York	± 0.0	± 0.0	± 0.0	± 0.0
Materials of agricultural origin					
Wool	Melbourne	- 16.4	- 26.9	+ 21.8	- 9.6
Cotton	New York	+ 5.6	- 1.9	- 7.7	+ 1.6
Cotton	Alexandria	- 8.6	- 11.0	+ 8.6	+ 11.0
Jute	London	- 12.8	- 9.5	+ 7.6	+ 4.7
Sisal	London	- 5.5	+ 9.2	+ 25.6	+ 6.1
Skins	Chicago	- 13.9	+ 27.6	+ 20.0	- 7.9
Rubber.	Singapore	- 26.7	+ 1.1	+ 40.5	+ 1.8
Wood pulp	Sweden	- 1.2	- 5.5	- 5.1	+ 2.3
Foodstuffs					
Wheat	Winnipeg	- 3.6	± 0.0	+ 1.2	± 0.0
Maize	New York	- 7.8	- 1.1	- 4.5	+ 4.0
Sugar	New York	- 17.0	- 7.8	- 15.9	± 0.0
Cocoa	New York	+ 52.8	+ 2.6	- 24.5	- 13.6
Coffee	New York	- 7.2	- 24.4	- 14.8	+ 3.5
Copra	London	- 2.0	+ 33.4	- 3.4	+ 0.6
Soya beans	Chicago	- 8.6	- 5.4	- 0.2	- 0.9
Cotton oil	New York	+ 4.4	- 21.9	- 14.9	+ 3.7
Lard	New York	- 20.7	- 3.6	- 24.5	+ 13.4

Two materials closely connected with the motor-car industry — oil and rubber — behaved in rather different ways in 1959-60. There were no far-reaching changes in the market for crude oil, but the tendency of crude-oil prices in the Caribbean and Middle East areas to become less dependent on those in the United States was accentuated. World crude-oil production is still rising very fast — faster than consumption — and this fact will continue, for some time to come, to exercise heavy pressure on the prices of crude oil and also of oil derivatives. The prices for natural rubber, in contrast to those for oil, underwent a major increase — of 40 per cent. — in 1959, the market position of this commodity having improved considerably. In the first quarter of 1960, however, they became stable again, as they had been in 1958. If their movements are followed even further back, it is found that in 1956 and 1957 rubber prices fell by 13 and 27 per cent. respectively. Thus they are now back at the level at which they stood early in 1956. At the moment world consumption of plantation rubber is slightly greater than production. Because of this it is likely that the share of synthetic rubber in the market

will grow and that the price relationship between the two will readjust itself. In connection with the shortage — albeit not very great — of natural rubber, it should be noted that the United States and the United Kingdom have now begun selling natural rubber from their stockpiles.

The markets for textile fibres were very active in 1959-60 and, except in the case of raw cotton, prices rose. Even the decline in cotton prices is in fact to be regarded rather as the result of a policy designed to pave the way for a gradual return to a one-price system than as a departure from the general trend. In 1959-60 both production and consumption of cotton reached a new all-time "high" and the western-world carry-over declined to its lowest level since 1953 (about 17 million bales). Raw-wool prices, after falling rapidly and continuously from May 1957 to January 1959, strengthened again markedly throughout the rest of the year, mainly owing to the growth in demand (in particular from the U.S.S.R. and Japan).

The prices of foodstuffs, beverages, etc. as a group fell last year. Those of some individual commodities, however, rose. Thus there was an increase in wheat prices first in anticipation of and then in consequence of a decline in the harvest. But though it was smaller, the harvest was of good quality, and in wheat-importing countries the results were, generally speaking, satisfactory. In western Europe, in fact, the total harvest reached a new record level. In the case of sugar, coffee and cocoa both output and supplies were so ample and the harvest surpluses so great that prices tended to be forced down.

* * *

In the period from January 1959 to the spring of 1960 international commodity supplies and requirements were sufficiently well balanced to allow the advantages of open-market economies to be enjoyed. Thanks to rising activity in all parts of the world, the sales of primary producers expanded in volume and value, while the general stability of world-market prices helped the importing countries to increase output without inflation. Changes in individual prices reflected to a greater extent than in the past the actual market position of the commodity concerned, thus contributing to the achievement of more balanced and efficient growth both in the countries producing and exporting basic commodities and in the importing countries in various parts of the world.

V. World Trade and Payments.

The turnover of world trade, after undergoing a decline in the 1958 recession, rose in 1959 from \$197 to 207.8 milliard, or by 5.5 per cent., thus coming close to the 1957 peak of \$209.5 milliard. Exports, at \$102 milliard, actually exceeded their 1957 level by \$1 milliard, or 1 per cent., and their 1958 level by 6 per cent. The disparity between the recovery in exports and that in the trade turnover is solely due to the fall in freight rates since 1957, which has reduced the c.i.f. price of imports. If freights had been as high in 1959 as in 1957, the turnover would have been \$211.4 milliard.

Turnover of world trade.

Areas	World trade turnover ¹					Annual rates of change		
	1938	1950	1957	1958	1959 ²	1939-59	1951-59	1959 ²
	in milliards of U.S. dollars					in percentages		
Industrial countries								
Western Europe								
E.E.C.	10.5	20.5	47.4	45.7	49.5	+ 7.7	+10.3	+ 8.3
E.F.T.A.	10.5	21.7	36.7	35.1	37.1	+ 6.2	+ 6.1	+ 5.7
Other countries	1.4	4.1	6.7	6.4	6.8	+ 7.8	+ 5.8	+ 6.3
Total for western Europe	22.4	46.3	90.8	87.2	93.4	+ 7.0	+ 8.1	+ 7.1
United States ³ and Canada	7.3	26.2	47.0	43.1	46.1	+ 9.2	+ 6.5	+ 7.0
Japan	1.5	1.8	7.1	5.9	7.1	+ 7.7	+16.5	+20.3
Total for industrial countries	31.2	74.3	144.9	136.2	146.6	+ 7.6	+ 7.8	+ 7.6
Non-industrial countries								
Latin America	3.2	12.4	18.0	16.7	16.5	+ 8.1	+ 3.2	- 1.2
Other countries	10.0	30.4	46.6	44.1	44.7	+ 7.4	+ 4.4	+ 1.4
Total for non-industrial countries	13.2	42.8	64.6	60.8	61.2	+ 7.6	+ 4.1	+ 0.7
World trade turnover	44.4	117.1	209.5	197.0	207.8	+ 7.6	+ 6.6	+ 5.5

¹ Excluding trade between the U.S.S.R., eastern European countries and mainland China. ² Preliminary.
³ Including military aid shipments.

The annual rate of increase in the turnover of world trade since before the war works out at 7.6 per cent. and both industrial and non-industrial countries have shared equally in the expansion. In the immediate post-war years the increase in the trade of non-industrial countries was more rapid than that of industrial countries, mainly because of the advance in the prices of primary products in relation to those of manufactured goods. But since the short-lived Korea boom the terms of trade of non-industrial countries have been consistently below their 1950 level and the major impetus to the expansion of world trade has come from industrial countries. From 1951 to 1959 their trade turnover increased by 7.8 per cent. annually and that of non-industrial countries by 4.1 per cent. In 1959 the divergence was much greater, the corresponding increases being 7.6 and 0.7 per cent.

**Industrial and non-industrial countries:
Value, volume and unit values of foreign trade.**

Years	Value		Volume		Unit values		Terms of trade
	Imports	Exports	Imports	Exports	Imports	Exports	
Index: 1953 = 100							
Industrial countries							
1950	78	69	86	81	88	85	97
1957	142	142	135	135	105	105	100
1958	132	135	133	131	99	103	104
1959	144	143	150	141	96	101	106
<i>Change (in percentages)</i>							
1950-59	+ 90	+107	+ 74	+ 74	+ 9	+ 19	+ 9
1958-59	+ 9	+ 6	+ 13	+ 8	- 3	- 2	+ 2
Non-industrial countries							
1950	79	87	90	93	88	94	107
1957	139	121	134	122	103	99	96
1958	131	116	131	123	100	94	94
1959	127	123	130	135	97	91	93
<i>Change (in percentages)</i>							
1950-59	+ 61	+ 41	+ 44	+ 45	+ 10	- 3	- 13
1958-59	- 3	+ 6	- 1	+ 10	- 3	- 3	- 1

The interplay of changes in volume and prices is shown in the above table, from which it is apparent that from 1950 to 1959 the volume of trade of industrial countries expanded by 74 per cent., reflecting mainly a steep increase in trade within the group, while their terms of trade improved by 9 per cent. In value, trade among industrial countries more than doubled during this period. The trade of the non-industrial countries rose by only 45 per cent. in volume and simultaneously their terms of trade deteriorated by 13 per cent.

If the figures for the turnover of world trade are considered in conjunction with the indexes of volume and prices, it is found that nearly two-thirds of the total increase of \$91 milliard which occurred from 1950 to 1959 was due to a rise in the volume of trade of industrial countries.

**Components of the increase
in world trade turnover, 1950-59.**

Items	1950-59	1958-59
	in milliards of U.S. dollars	
Industrial countries		
Increase in volume	+ 66	+ 13
Change in prices	+ 14	- 3
Non-industrial countries		
Increase in volume	+ 19	+ 3
Change in prices	+ 2	- 2
World trade turnover		
Total increase	+ 91	+ 11

The impact of changes in volume and prices is summarised in the accompanying table.

The main components of the \$10 milliard increase in the trade turnover of industrial countries from 1958 to 1959 were a sharp expansion of \$4.6 milliard in the trade of O.E.E.C. countries among themselves (of which \$2.6 milliard represented a growth in the trade of the countries of the European Economic Community with each

other), a rise of \$2.3 milliard in U.S. imports and one of \$1.2 milliard in the trade of Japan.

By the spring of 1959 the slight decline in intra-European trade, which had started even before the onset of the recession, had been made good and the value of trade for the year as a whole was 11 per cent. higher than in 1958. Trade among the E.E.C. countries rose faster than the average, namely by as much as 19 per cent., while trade between them and the rest of the O.E.E.C. increased by 8 per cent. The agricultural countries on the fringe of Europe, with the exception of Turkey, did not participate in the general rise, their trade with other O.E.E.C. countries remaining more or less at its 1958 level. Thus the development of trade within western Europe conformed to a pattern similar to that of world trade.

European trading areas.

Areas	1957		1958		1959		Change from 1958 to 1959	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
	in millions of U.S. dollars						in percentages	
European Economic Community								
Intra-area trade	7,020	7,165	6,790	6,865	8,090	8,180	+ 19.1	+ 19.2
Trade with rest of O.E.E.C.	4,270	5,675	4,100	5,660	4,430	6,140	+ 8.0	+ 8.5
Trade outside O.E.E.C. . . .	13,550	9,850	12,060	10,215	11,690	10,930	- 3.1	+ 7.0
Total trade	24,840	22,490	22,950	22,740	24,210	25,250	+ 5.5	+ 11.0
European Free Trade Association								
Intra-area trade	3,185	2,930	3,040	2,820	3,240	3,040	+ 6.6	+ 7.8
Trade with rest of O.E.E.C.	5,535	4,190	5,800	4,360	6,230	4,610	+ 7.4	+ 5.7
Trade outside O.E.E.C. . . .	11,340	9,140	10,020	9,040	10,550	9,350	+ 5.3	+ 3.4
Total trade	20,060	16,260	18,860	16,220	20,020	17,000	+ 6.2	+ 4.8
Trade of E.E.C. with E.F.T.A.	3,810	4,970	3,640	4,950	3,950	5,420	+ 8.5	+ 9.5
O.E.E.C.								
Intra-area trade	21,440	21,230	20,990	20,580	23,310	22,880	+ 11.1	+ 11.2
Trade with rest of world . .	25,840	19,360	23,190	19,800	23,410	20,860	+ 0.9	+ 5.4
Total trade	47,280	40,590	44,180	40,380	46,720	43,740	+ 5.7	+ 8.3

The expansion of trade within the Community and among O.E.E.C. countries was largely concentrated on manufactured products. In the whole group of O.E.E.C. countries exports of such products rose by 8.4 per cent. between the first half of 1958 and the corresponding period of 1959, thereby again increasing their share in the trade of the group. In 1953 manufactured products represented 47 per cent. of all intra-O.E.E.C. exports, raw materials and fuels 35 per cent. and foodstuffs 17 per cent. In the first half of 1959 their respective shares were 55, 30 and 15 per cent. Some two-thirds of the O.E.E.C. countries' exports of manufactured products to each other is accounted for by the countries of the E.E.C.

It seems likely that trade within the E.E.C. was also intensified as a result of the implementation of the first stage of the Rome Treaty, although, as other O.E.E.C. countries shared in most of the mutual advantages granted, anticipation of the further stages of the process was perhaps more important than the measures actually taken and encouraged exporters to make particular sales efforts in that area. On 1st January 1959 the E.E.C. countries lowered their customs duties on industrial products by 10 per cent. This first reduction has been extended to all G.A.T.T. members and to other countries benefiting by the most-favoured-nation clause, provided that it does not have the effect of reducing tariff rates below the level of the future external tariff of the E.E.C. Reductions vis-à-vis third countries had to be made mainly by France and Italy, whose duties are considerably above the common tariff. Also on 1st January 1959 the E.E.C. member countries globalised their existing bilateral quotas with each other and increased them by 20 per cent. above the 1958 level. In addition, the so-called "negligible" quotas were raised to 3 per cent. of the annual output of the products concerned. In response to a suggestion made by the Community that the 20 per cent. liberalisation of imports of manufactured goods should be extended to other O.E.E.C. countries, bilateral negotiations have been conducted and bilateral agreements concluded (e.g. between France, on the one hand, and Austria, Denmark, Norway, Sweden, Switzerland and the United Kingdom, on the other, and between Benelux and the United Kingdom).

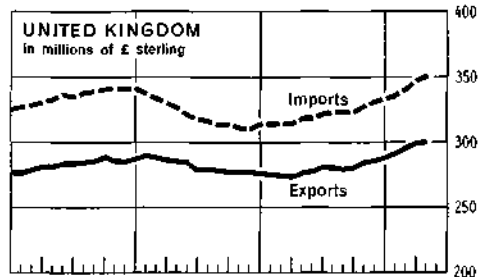
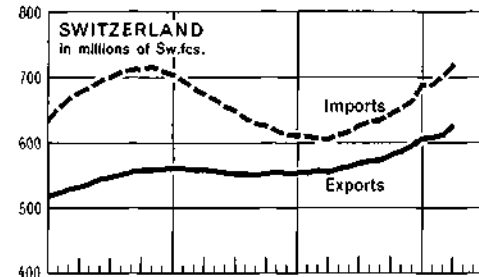
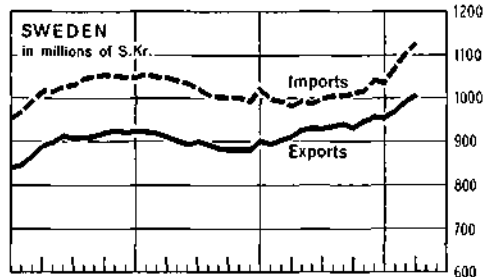
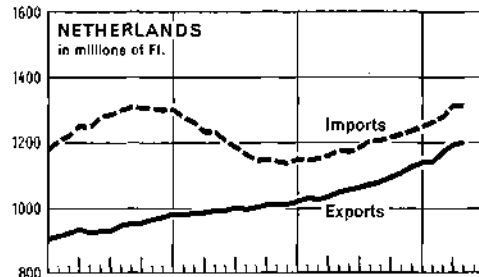
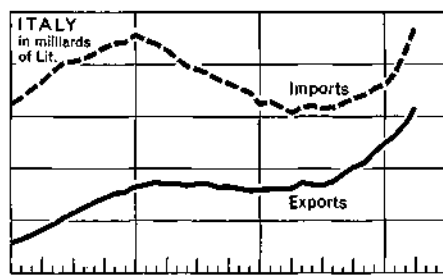
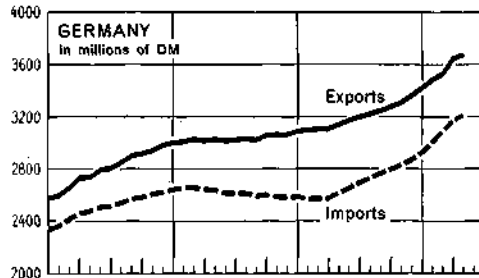
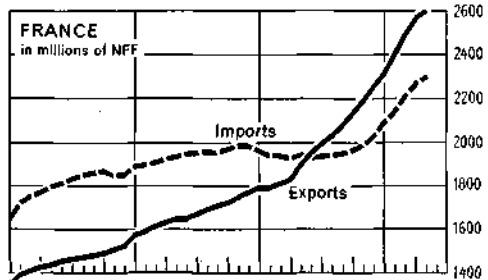
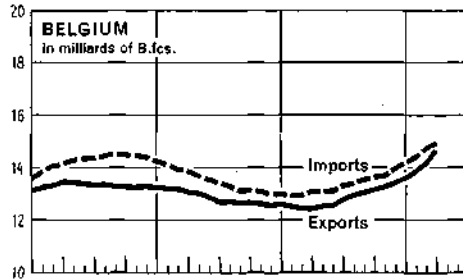
The proportion of the E.E.C. countries' total trade accounted for by intra-area trade was 30 per cent. in 1958 and rose to 33 per cent. in 1959. In the case of the countries which since May 1960 have been grouped in the European Free Trade Association (E.F.T.A.), intra-area trade represented 16 per cent. of their total imports and 18 per cent. of their exports in 1959.

The value of goods imported into the United States amounted to \$15 milliard in 1959, or \$2.2 milliard more than in 1958. Of this increase western Europe accounted for over one-half, the rest being fairly equally divided between Canada, Japan and other Far Eastern countries. As regards the composition of U.S. imports, nearly one-half of the increase was attributable to four groups of products, i.e. iron and steel-mill products, textiles, motor-cars and machinery, purchases of which rose by \$350, 275, 250 and 185 million respectively.

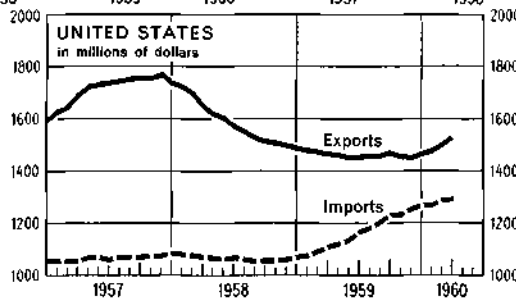
In Japan both imports and exports increased by nearly \$600 million in 1959. Imports from the United States, which represent over one-third of the total, increased little, the chief expansion having been in those from Europe and Asia. On the other hand, more than half the growth in exports was accounted for by additional sales to the United States, whose share of Japan's total exports rose from 24 to 30 per cent.

The trade of the Chinese-Soviet group of countries (including those of eastern Europe), which is not included in the preceding data on world trade, has

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



№ 1563



Trade of the Chinese-Soviet group
compared with that of the western world.

Years	Trade of the Chinese-Soviet group			Trade of the western world			Total world trade ²
	Intra-area trade	With the western world	Total	Intra-area trade ¹	With the Chinese-Soviet group	Total	
in milliards of U.S. dollars							
1950 . . .	6.6	3.3	9.9	113.8	3.3	117.1	123.7
1956 . . .	14.5	5.5	20.0	187.5	5.5	193.0	207.5
1957 . . .	17.3	6.3	23.6	203.2	6.3	209.5	226.8
1958 . . .	18.0	6.9	24.9	190.1	6.9	197.0	215.0
1959 ³ . .	21.6	7.0	28.6	200.8	7.0	207.8	229.4

¹ The intra-area trade of the western world has been calculated as the difference between the world turnover figures as shown in the table on page 108 and the Chinese-Soviet group's trade with the outside world. ² Total world trade is calculated as the sum of the trade of the western world — which includes trade with the Chinese-Soviet group — and the intra-area trade of the Chinese-Soviet group. ³ Rough estimates, except for total trade of the western world.

risen at a more rapid pace since 1950 than trade in the western world. Starting from a very low level after the war, it rose at an annual rate of 12 per cent. from 1951 to 1958, or 13.5 per cent. if intra-group trade alone is considered.

In relation to world trade the share of the Chinese-Soviet group increased from 8 per cent. in 1950 to 12.5 per cent. in 1959; while intra-group trade more than trebled, trade with the outside world rather more than doubled during that period. Trade between the two groups had declined sharply from 1948 to 1953, partly owing to strong autarkic tendencies in the Chinese-Soviet group and partly as a result of measures taken in connection with the Korea crisis. Since then the trade of the Chinese-Soviet group with the outside world has grown more rapidly than trade within the group. Whereas in 1953, when east-west exchanges were at their lowest level, the proportion of outside trade was 20 per cent., in 1957 and 1958 it reached 27 and 28 per cent. respectively. In 1959, according to preliminary figures, there seems to have been a reversal of this trend, as intra-group trade — and, in particular, trade between the U.S.S.R. and China — increased more than trade with outside countries. The integration of the individual countries within the Chinese-Soviet group (expressed as a percentage of intra-group trade to total trade) varied in 1958 from 56 per cent. in the case of Poland to 96 per cent. in that of Albania, while for most countries the percentage was around 70.

The share of western countries' trade with the Chinese-Soviet group has been about 3.5 per cent. in recent years. For certain European countries, however, such as Austria, Finland, Iceland, Greece, Turkey and Yugoslavia, and for an increasing number of underdeveloped countries, trade with the Chinese-Soviet group has become very important owing to the conclusion of long-term agreements — mostly connected with the granting of credits, guaranteed markets for staple products, finance for the building of plant and technical assistance. As centrally-directed trade can be switched very rapidly from one market to another, the Chinese-Soviet group has been able to step in when countries of the western world have had difficulty in selling their products, such as was

the case, for instance, with Icelandic fish, Burmese rice, Egyptian cotton and Uruguayan meat.

In the period from mid-1954 to mid-1959 the assistance given by the Chinese-Soviet group to underdeveloped countries totalled about \$2.7 milliard, of which three-quarters was economic and the rest military. The U.S.S.R. provided 70 per cent. of the total and China less than 4 per cent. During the same five years total western aid to underdeveloped areas works out at some \$15 milliard, of which about two-thirds came from the United States. If private foreign investments were added to official aid, the contribution of western capital would probably be found to have exceeded \$25 milliard.

**Chinese-Soviet economic assistance to underdeveloped countries
and U.S. aid to the same countries,
July 1954 to June 1959.**

Recipient areas and countries	Chinese-Soviet ¹	United States ²	Total
	in millions of U.S. dollars		
South and South-East Asia			
India	323	1,166	1,489
Pakistan	3	738	741
Indonesia	239	189	428
Afghanistan	213	86	298
Cambodia	34	173	207
Ceylon	58	54	112
Burma and Nepal	37	90	127
Total for South and South-East Asia	907	2,495	3,402
Middle East and Africa			
United Arab Republic	520	142	662
Iran	6	353	359
Ethiopia	124 ³	56	180
Iraq	138	15	153
Guinea and Yemen	44	9	53
Total for Middle East and Africa . .	832	575	1,407
Europe			
Yugoslavia	110	630	740
Turkey	17	623	640
Iceland	5	25	30
Total for Europe	132	1,278	1,410
Latin America			
Brazil	2	617	619
Argentina	104	345	449
Total for Latin America	106	962	1,068
Total assistance	1,975	5,309	7,284

¹ Including about 10 per cent. of grants, commitments, assistance under Public Law 480, and Export-Import Bank development loans.

² Including I.C.A. obligations, Development Loan Fund commitments, agricultural surplus aid under the Mutual Security Act and

³ Including a credit agreement for \$122 million concluded early in July 1959.

Source: Comparison of the United States and Soviet economies. Papers submitted to the Subcommittee on Economic Statistics, U.S. 86th Congress, 1st Session.

The outflow of private long-term capital from western countries towards underdeveloped areas, amounting to about \$2 milliard a year, represents roughly one-half of the total outflow, the rest being accounted for by flows between industrial countries, viz. mainly from the United States to Canada and western Europe and among western European countries. Over the years 1954-57 the net outflow of long-term capital from the United States and the six European countries included in the table below averaged \$3.3 milliard, of which a little over one-half was provided by the United States. In both 1958 and 1959 the total outflow amounted to roughly \$4 milliard, the U.S. share having been 60 per cent. in 1958 and 50 per cent. in 1959, as exports of U.S. capital declined from \$2.5 to 2 milliard, mainly owing to a reduction in new issues of foreign securities from the post-war record level of \$950 million in 1958 to \$600 million in 1959.

Net private long-term capital outflow in relation to gross national product.¹

Supplying countries	1954-57 average	1958	1959	1959 as a percentage of gross national product
	in millions of U.S. dollars			
Europe				
Belgium-Luxemburg ²	130	100	65 ³	0.5
France ⁴	495	360	300 ⁵	0.6
Germany	90	275	535	0.9
Netherlands	85	250	370	3.6
Switzerland ⁶	230	30	110	1.4
United Kingdom	570	590	530	0.8
Total	1,600	1,605	1,910	0.9
United States ⁷	1,745	2,540	2,050	0.4
Grand total	3,345	4,145	3,960	0.6

¹ Domestic capital only. ² Long and short-term. ³ First half of 1959. ⁴ Net outflow of private long-term funds from metropolitan France to foreign countries and private contribution to capital formation in overseas territories. ⁵ Estimate. ⁶ Mainly new issues on the Swiss capital market plus net transactions in outstanding securities. For 1958 and 1959 new issues only. ⁷ Excluding retained profits of U.S. subsidiaries abroad.

The decline in the net outflow of U.S. capital in 1959 was concurrent with an increase in net capital exports from Europe, which rose from \$1.6 to 1.9 milliard. Germany accounted for about two-thirds of this increase and the Netherlands for about one-third. The additional outflow consisted mainly in a rise in portfolio investment, which seems to point rather to an intensification of capital movements among industrial countries than to an increased flow to the underdeveloped countries.

* *

In 1959, for the second time since the war, the United States had a deficit on current account; this amounted to over \$900 million, compared with surpluses of \$1.5 milliard in 1958 and \$5.1 milliard in 1957. The deterioration was entirely due to an increase of \$2.4 milliard in imports, of which

one-half related to purchases from Europe, the rest being mainly accounted for by transactions with the sterling area and Canada. If the trend of imports is examined over a longer span of time it will be seen to have followed the growth in U.S. income. From 1950 to 1959 both the gross national product and imports rose by about 70 per cent; imports in relation to the gross national product have thus remained at an average of 3.1 per cent. over the last ten years. But important shifts have taken place in the composition of imports and consequently also in their origin.

United States: Distribution of imports.

Groups of products and areas	1950	1957	1958	1959	1950	1957	1958	1959
	in millions of dollars				as percentages of total			
Raw materials	2,460	3,210	2,780	3,090	28	25	22	21
Processed and non-processed foodstuffs	2,650	3,290	3,460	3,420	31	25	27	23
Semi-manufactures	2,130	2,920	2,660	3,310	24	23	21	22
Finished goods	1,500	3,530	3,920	5,170	17	27	30	34
<i>of which</i>								
Machinery and vehicles	(160)	(860)	(1,150)	(1,620)	(2)	(7)	(9)	(11)
Total imports for consumption	8,740	12,950	12,820	14,990	100	100	100	100
Western Europe	1,360	3,080	3,300	4,520	15	24	25	30
Canada	1,960	2,910	2,680	3,040	22	22	21	20
Latin America	2,910	3,760	3,590	3,610	33	29	28	24
Other areas	2,620	3,230	3,300	4,030	30	25	26	26
Total general imports	8,850	12,980	12,870	15,200	100	100	100	100

Note: Imports for consumption include all goods that enter into merchandising or consumption channels immediately on arrival, together with those that are withdrawn from customs warehouses for consumption. General imports include all goods that enter into merchandising or consumption channels immediately, together with any that are placed in bonded customs warehouses for storage.

In absolute figures, over one-half of the increase in imports between 1950 and 1959 represented a rise in imports of finished goods. In 1950 they roughly corresponded to total imports from western Europe; in 1959 this was not so clearly the case, owing chiefly to the expansion in imports of such goods from Japan. Nevertheless, the share of western Europe in total imports rose from 15 to 30 per cent., while that of Latin America fell off from 33 to 24 per cent., so that in 1959, for the first time, western Europe displaced Latin America as the United States' main supplier.

The emergence of an adverse balance of trade in 1959 was connected with the fact that the economic recovery began about nine months earlier in the United States than in Europe and that the purchasing power of the primary producers remained low because of the depressed level of their export prices. In addition, the steel strike boosted imports of iron and steel-mill products from \$230 to 580 million, with the result that for the first time in over half a century steel imports exceeded steel exports. Imports of finished consumer goods other than foodstuffs increased from \$1.5 milliard in 1957 to \$2.4 milliard in 1959, a large proportion of this being accounted for by passenger cars. As recently as 1954 such imports amounted to \$45 million; this figure

jumped to \$300 million in 1957 and to over \$700 million in 1959, in which year the number of passenger cars imported, at some 670,000, was six times as large as the number exported.

Exports in 1959 amounted to \$16.2 milliard and were thus equal to those in 1958. The decline from the exceptionally high level of \$19.4 milliard achieved in 1957 was halted in mid-1959, and the seasonally adjusted export figure for the second half of that year was 9 per cent. above that for the first half.

While total net expenditure on invisible items in 1959, at \$1,790 million, was only \$50 million higher than in 1958, there were certain changes in its composition, the main one being a decline in military expenditure abroad

United States: Balance of payments.

Items	All areas			Western Europe		
	1957	1958	1959	1957	1958	1959
in millions of dollars						
Commercial exports	19,390	16,230	16,210	5,960	4,660	4,700
Commercial imports	13,290	12,950	15,340	3,090	3,290	4,520
Balance of trade	+ 6,100	+ 3,280	+ 870	+ 2,870	+ 1,370	+ 180
Invisible items (net)						
Travel	- 590	- 640	- 710	- 390	- 450	- 480
Investment income	+ 2,230	+ 2,250	+ 2,130	+ 80	+ 210	+ 130
Military expenditure	- 2,790	- 3,120	- 2,830	- 1,570	- 1,680	- 1,520
Other invisible items ¹	+ 160	- 230	- 380	- 90	- 280	- 310
Total invisible items	- 990	- 1,740	- 1,790	- 1,970	- 2,200	- 2,180
Balance on current account	+ 5,110	+ 1,540	- 920	+ 900	- 830	- 2,000
Government grants ²	- 1,620	- 1,610	- 1,620	- 320	- 320	- 310
U.S. capital movements (net) (outflow -)						
On government account	- 960	- 970	- 1,730	- 370	- 40	+ 530
On private account	- 3,170	- 2,840	- 2,140	- 400	- 410	- 430
Total U.S. capital movements	- 4,130	- 3,810	- 3,870	- 770	- 450	+ 100
Foreign capital movements (net) (inflow +)	+ 310	+ 60	+ 1,220	+ 350	- 70	+ 810
Total net grants and capital movements (outflow -)	- 5,440	- 5,360	- 4,270	- 740	- 840	+ 600
Overall balance	- 330	- 3,820	- 5,190	+ 160	- 1,670	- 1,400
Balanced by						
Gold sales to foreigners (+)	- 800	+ 2,270	+ 1,080	- 70	+ 2,330	+ 830
Short-term liabilities to foreigners (increase +)	+ 380	+ 1,110	+ 3,330	+ 360	+ 640	+ 1,030
Unrecorded payments, errors and omissions (outflow +)	+ 750	+ 440	+ 780	- 450	- 1,300	- 460
Total	+ 330	+ 3,820	+ 5,190	- 160	+ 1,670	+ 1,400

¹ Including pensions and private remittances.

² Excluding net military transfers under grants.

from \$3.1 to 2.8 milliard. This was, however, more than offset by higher net expenditure on foreign travel and lower net receipts from investment income. In recent years income from investment abroad has averaged \$2.8 milliard per annum; against this, interest and dividends due on foreign investments in the United States have amounted to some \$600 million. In 1959, while income from abroad rose very little above its 1958 level (a fall in receipts from direct investments in the petroleum and other raw-material-producing countries being compensated by higher receipts from other private and government investments), U.S. payments to foreign countries increased by over \$140 million, mainly on account of the higher interest paid on foreign-held U.S. Government securities.

Government grants and the capital outflow together amounted to \$5.5 milliard in 1959, slightly more than the previous year's figure. The long-term capital outflow on government account increased from \$1.3 milliard in 1958 to \$2.4 milliard in 1959, as a result of the subscription of \$1,375 million to the International Monetary Fund. On the inflow side, receipts increased from \$650 to 1,000 million, as certain European countries — in particular, Germany and the United Kingdom — made advance loan repayments. As net short-term official transactions amounted to \$340 million in both years, the net outflow on government account increased from roughly \$1 milliard in 1958 to \$1.7 milliard in 1959. This rise was practically offset by a falling-off of \$700 million in exports of private capital (attributable as to one-half to a contraction in new foreign issues, which were discouraged by the high U.S. interest rates), so that the total net outflow of U.S. funds, at \$3.9 milliard, was only slightly larger than in the previous year. There was a certain increase in direct investments, particularly in western Europe. While half the United States' investments in Europe are still concentrated in the United Kingdom, the rate of new U.S. investment is rising much more rapidly in the countries of the E.E.C. Most of the investment takes the form of the buying of interests in existing companies or the formation of jointly-owned subsidiaries.

In contrast to the overall stability of the net outflow of U.S. capital, the net inflow of foreign capital rose from \$60 million in 1958 to \$1.2 milliard in 1959, of which \$550 million took the form of private direct and portfolio investment. At the same time the short-term dollar assets of foreigners increased by \$3.3 milliard. As a result of the continuous large outflow of U.S. capital in the post-war years, the United States' net investment position in 1959 amounted to \$24 milliard, against \$13 milliard in 1948. From 1948 to 1959 its net long-term assets increased from \$20.5 to about 42 milliard and its net short-term liabilities from \$7.5 to nearly 18 milliard.

An improvement in the balance of trade occurred in the first quarter of 1960, commercial exports reaching an annual rate of \$18.4 milliard, against one of \$15.4 milliard in the first quarter of 1959. Imports are tentatively estimated at an annual rate of \$15.7 milliard (against \$14.3 milliard a year earlier), so that the first quarter of 1960 is expected to show a surplus, on an annual basis, of some \$2.7 milliard. The export surplus for the whole of 1959 was \$1.1 milliard.

The aggregate balance-of-trade deficit of all the O.E.E.C. countries was reduced from nearly \$500 million in 1958 to \$100 million in 1959, while net receipts from invisible items declined from \$4.2 to 3.8 milliard, so that on current account there was in both years a surplus of roughly \$3.7 milliard. The increase in reserves, which had amounted to \$3.3 milliard in 1958, was reduced to \$1.1 milliard in 1959, as there was a net total capital outflow of \$2.6 milliard.

O.E.E.C. countries: Balances of payments.

Countries	Years	Balance of trade	Net invisible items ¹	Balance on current account	Net balance on capital account (inflow +) ²	Changes in monetary items (increase +)
Belgium-Luxemburg . . .	1958	+ 210	+ 160	+ 370	- 50	+ 320
	1959 1st half	+ 40	-	+ 40	- 65	- 25
France	1958	- 295	+ 70	- 225	+ 30	- 195 ³
	1959	+ 440	+ 320	+ 760	+ 615	+ 1,375 ³
Germany	1958	+ 1,790	- 300	+ 1,490	- 730	+ 760
	1959	+ 1,840	- 740	+ 1,100	- 1,600	- 500
Italy	1958	- 415	+ 1,140	+ 725	+ 125	+ 850
	1959	- 375	+ 1,130	+ 755	+ 10	+ 765
Netherlands	1958	- 75	+ 515	+ 440	+ 60	+ 500
	1959	- 130	+ 545	+ 415	- 255	+ 160
Total for E.E.C. . . .	1958	+ 1,215	+ 1,585	+ 2,800	- 565	+ 2,235
	1959 ⁴	+ 1,815	+ 1,255	+ 3,070	- 1,295	+ 1,775
Austria	1958	- 110	+ 120	+ 10	+ 150	+ 160
	1959	- 140	+ 150	+ 10	+ 20	+ 30
Denmark	1958	+ 15	+ 110	+ 125	+ 35	+ 160
	1959	- 105	+ 115	+ 10	+ 60	+ 70
Norway	1958	- 570	+ 415	- 155	+ 200	+ 45
	1959	- 510	+ 430	- 80	+ 130	+ 50
Portugal ⁵	1958	- 90	+ 110	+ 20	+ 20	+ 40
	1959	- 80	+ 95	+ 15	+ 30	+ 45
Sweden	1958	- 280	+ 225	- 55	+ 85	+ 30
	1959	- 200	+ 210	+ 10	- 0	+ 10
Switzerland	1958	- 160	+ 385	+ 225	- 55	+ 170
	1959	- 230	+ 435	+ 205	- 200	+ 5
United Kingdom	1958	+ 275	+ 700	+ 975	- 380	+ 595
	1959	- 185	+ 570	+ 405	- 1,420	- 1,015
Total for E.F.T.A. . .	1958	- 920	+ 2,065	+ 1,145	+ 55	+ 1,200
	1959	- 1,430	+ 2,005	+ 575	- 1,380	- 805
Greece	1958	- 240	+ 160	- 80	+ 55	- 25
	1959	- 210	+ 200	- 10	+ 45	+ 35
Iceland	1958	- 10	+ 5	- 5	+ 5	0
	1959	-	-	-	-	-
Ireland	1958	- 180	+ 180 ²	- 0 ⁶	0	0
	1959	- 230	+ 230 ⁷	0	.	.
Spain	1958	- 295	+ 160	- 135	- 20	- 155
	1959	- 45	+ 125	+ 80	+ 35	+ 115
Turkey	1958	- 35	+ 60	+ 25	- 20	+ 5
	1959	.	.	.	.	.
Total for O.E.E.C. . .	1958	- 465	+ 4,215	+ 3,750	- 490	+ 3,260
	1959 ⁸	- 100	+ 3,815	+ 3,715	- 2,595	+ 1,120

¹ Including donations. ² Including errors and omissions. ³ Including net balance of overseas territories on current and capital account. ⁴ Belgium-Luxemburg for the first half of the year only. ⁵ Escudo area. ⁶ Because of rounding the small current-account deficit of \$2.8 million appears as zero. It was fully compensated by an inflow of capital. ⁷ Estimate. ⁸ Belgium-Luxemburg for the first half of the year only, and excluding Iceland and Turkey.

The balance of trade of the E.E.C. group of countries shows an improvement of \$600 million — mainly on account of the reversal of the position of France — and that of the E.F.T.A. countries a deterioration of about \$500 million, of which over \$400 million was due to a worsening in the British balance. With regard to net receipts from invisible items, those of the E.E.C. countries fell by \$330 million owing entirely to higher net expenditure by Germany, while a drop of \$60 million in the case of the E.F.T.A. countries was attributable to a decline in the net receipts of the United Kingdom. As for net capital movements, over two-thirds of the change was accounted for by the E.F.T.A. group, owing to an increase of \$1 milliard in the U.K. outflow, and the rest by an increased outflow from Germany.

In the United Kingdom the surplus on current account was reduced from £349 million in 1958 to £145 million in 1959. This deterioration was

United Kingdom: Balance of payments.

Items	1957	1958	1959
	in millions of £ sterling		
Merchandise trade (f.o.b.)			
Imports	3,569	3,330	3,605
Exports (including re-exports)	3,538	3,428	3,547
Balance of trade	- 31	+ 98	- 58
Invisible Items (net)			
Shipping	+ 73	+ 86	+ 86
Investment income	+ 92	+ 40	+ 69
Government transactions	- 143	- 216	- 228
Other items	+ 243	+ 341	+ 276
Total invisible items	+ 265	+ 251	+ 203
Balance on current account	+ 234	+ 349	+ 145
Long-term capital account (net outflow —)			
Official	+ 63	- 49	- 358 ¹
Private	- 260	- 210	- 190
Total net capital outflow	- 197	- 259	- 548
Balance on current and long-term capital account	+ 37	+ 90	- 403
Balanced by			
Overseas sterling holdings (decrease —)			
of countries	- 149	+ 80	+ 145
of non-territorial organisations	- 24	- 22	+ 82
Unidentified capital movements and balancing item (inflow +)	+ 160	+ 123	+ 40
Official holdings of non-convertible currencies ² (increase —)	- 11	+ 13	+ 17
Gold and convertible currency reserves (increase —)	- 13 ³	- 284	+ 119
Total	- 37	- 90	+ 403

¹ Including the subscription of £232 million to the I.M.F. and the advance repayment of £89 million of the Export-Import Bank Loan. ² Including the U.K. balance in the E.P.U. ³ Including the account to which interest due on 31st December 1956 on the U.S. and Canadian loans was temporarily paid.

entirely accounted for by transactions with the sterling area, as imports from it rose by nearly £100 million while exports to it fell by £70 million, in addition to which there was also a decline of £40 million in net receipts from invisible items.

In 1958 the fall in prices of primary products and a reduction in the volume of imports of basic materials were the main factors which brought about a surplus of exports over imports amounting to nearly £100 million. In 1959 the increased expenditure on imports was due to several factors. In the early months of the year there was a rise in food purchases owing to the poor harvest of 1958, and later the expansion of industrial production and perhaps the building-up of stocks led to an increase in purchases of raw materials. Despite a certain expansion in exports, therefore, the balance of trade showed a deficit of about £60 million.

Imports, as recorded in the customs statistics, amounted to £3,990 million in 1959, against £3,750 million in the previous year — an increase of 6.5 per cent. — and exports rose from £3,170 million in 1958 to £3,330 million in 1959, or by nearly 5 per cent. The terms of trade remained practically unchanged for the year as a whole, improving somewhat in the first half and then deteriorating again in the second half. Measured in absolute figures, the greatest increases were recorded, in order of magnitude, in imports of non-ferrous base metals, machinery, chemicals, road vehicles and aircraft, cotton yarns, clothing and electrical machinery, which amounted together to over £120 million.

United Kingdom: Changes in the value and volume of imports.

Groups of imports	Changes in					
	value			volume		
	1957	1958	1959	1957	1958	1959
in millions of £ sterling			in percentages			
Food, beverages and tobacco	+ 43	+ 12	+ 31	+ 4	+ 5	- 1
Basic materials	+ 66	- 261	+ 32	+ 4	- 11	+ 6
Fuels and lubricants	+ 52	- 27	+ 29	- 1	+ 9	+ 15
Semi-manufactures	- 18	- 55	+ 76	+ 1	- 3	+ 13
Finished manufactures	+ 39	+ 34	+ 75	+ 12	+ 9	+ 21
Total	+ 182	- 296	+ 244	+ 4	± 0	+ 7

Over 80 per cent. of the £154 million increase in exports from 1958 to 1959 was attributable to three groups of products, namely non-electrical machinery, road vehicles and aircraft, and chemicals, sales of which rose by £60, 38 and 31 million respectively. The recovery in exports began in the second quarter of the year, those to industrial countries being first to pick up, while those to primary-producing countries, mainly in the sterling area, followed suit as the situation in these countries improved and enabled them to relax import restrictions. Nevertheless, the volume of exports to sterling-area countries remained 4 per cent. below the level of 1958, whereas sales to western Europe increased by 8 per cent. and those to North America

by 22 per cent., the share of the latter in total exports having grown steadily over the last few years to 17 per cent. in 1959.

In 1959 net receipts from invisibles declined by nearly £50 million, mainly as a result of a fall in net receipts in respect of oil. Larger investment income more than compensated the higher net government and tourist expenditure abroad, while net shipping returns remained at their 1958 level.

There was an outflow of long-term funds amounting to £548 million in 1959. But if non-recurrent payments, such as the £232 million subscription to the International Monetary Fund and the advance repayment of the £89 million loan from the Export-Import Bank, are deducted, the net outflow is reduced to £227 million, which is in line with the average for recent years. In the last seven years the net outflow of private investment abroad is estimated at £200 million a year. Gross private investment overseas is roughly estimated at £300 million a year from 1953 to 1959, of which probably one-third went to the less-developed countries. According to a recent publication by the Treasury, entitled "Assistance from the United Kingdom for Overseas Development", such assistance includes grants, loans and payments for technical assistance made under bilateral arrangements, and contributions to international bodies. From 1951-52 to 1959-60 total aid paid out from the U.K. Exchequer under these headings amounted to £727 million, of which £248 million was disbursed in the last two financial years.

The improvement in France's balance of payments on current account was due, to the extent of almost three-quarters, to a shift in the balance of trade from a deficit of nearly \$300 million in 1958 to a surplus of \$430 million in 1959, owing to a fall of some \$160 million in the f.o.b. value of imports and a rise of nearly \$570 million in exports. According to customs statistics, with values expressed in c.i.f. terms and in francs, imports from foreign countries, i.e. excluding those from the franc area, increased from NFF 17 to 19 milliard and exports to foreign countries from NFF 13 to 19 milliard. The volume of imports remained practically the same as in 1958 despite the return to a more liberal trade policy. Intra-European liberalisation, which had been totally suspended in June 1957, was reintroduced in December 1958 at the rate of 40 per cent. and was raised to 90 per cent. on 1st January 1959, while dollar liberalisation advanced in stages from 13 per cent. in December 1958 to 80 per cent. a year later, to reach 88 per cent. in May 1960. As mentioned earlier, the 10 per cent. tariff reduction and the enlargement of quotas which took place on 1st January 1959 were extended in the course of the year to countries outside the E.E.C. Moreover, in order to check a rise in prices following shortfalls in agricultural production, the duties on some foodstuffs were temporarily suspended in the autumn. The reasons for the stability of the volume of imports are the drawing-down of stocks during the first part of the year and the deterrent effect of the higher cost of imports in terms of francs. As the recovery speeded up in the last quarter of the year, the volume of imports rose steeply. As regards the value of imports, all categories shared in the increase, consumer goods rising most, i.e. by 30 per cent., followed by foodstuffs and

semi-finished products. Exports, owing to the establishment of a realistic rate of exchange and to the containment of domestic demand at a time when the requirements of both Europe and the United States were expanding, soared by 41 per cent. As prices in terms of francs rose by only 10 per cent., the improvement was due mainly to the expansion of 29 per cent. in their volume. In absolute figures, the biggest increase over 1958 was registered in exports of semi-finished goods, which rose by over NFF 2 milliard, more than half this increase being accounted for by iron and steel products. Exports of consumer goods went up by NFF 1.8 milliard, owing chiefly to an expansion in sales of motor-cars, especially to the United States. Substantial progress was also made in sales of chemical products, machinery and textiles. All in all, exports represented 7.3 per cent. of the gross national product, against 6.4 per cent. in 1958, and thus played an important part in the recovery of French industrial production.

In relation to the United States a surplus of nearly NFF 200 million was achieved (against a deficit of NFF 1.1 milliard the previous year), owing to an expansion of 81 per cent. in exports and a contraction of 11 per cent. in imports. Exports to O.E.E.C. countries increased by NFF 3.9 milliard, or 50 per cent., over the 1958 figure (most of the increase going to E.E.C. countries), while imports rose by NFF 1.9 milliard, or 25 per cent., thus bringing the surplus in the balance of trade from NFF 300 million up to NFF 2.4 milliard.

The rise in net invisible receipts from \$70 million in 1958 to \$320 million in 1959, which accounted for over one-quarter of the total improvement

French franc area: Balance of payments.

Items	1957	1958	1959 ¹
	in millions of U.S. dollars		
Metropolitan France			
Merchandise trade (f.o.b.)			
Imports	4,276	3,534	3,370
Exports	3,327	3,239	3,806
Balance of trade	- 949	- 295	+ 436
Invisible items (net) ²	- 185	+ 69	+ 321
Balance on current account	- 1,114	- 226	+ 757
Balance on capital account ³	+ 84	+ 48	+ 483 ⁴
Rest of French franc area			
Net balance	- 160	- 112	+ 70
French franc area			
Balance on current and capital account	- 1,190	- 290	+ 1,310
Balanced by			
Official credits (received +) ⁵	+ 437	+ 372	- 467
Changes in net total reserves (increase -) ⁶	+ 775	- 66	- 975
Errors and omissions	- 22	- 16	+ 132
Total	+ 1,190	+ 290	- 1,310

¹ Preliminary. ² Including foreign aid. ³ Excluding drawings on or repayments to the I.M.F. ⁴ Including repayment of \$139 million to the E.P.U. ⁵ E.P.U. and I.M.F. ⁶ Net official reserves plus net foreign assets of commercial banks.

in the balance on current account, was due, in the first place, to a threefold increase in net tourist receipts, which rose to \$190 million in 1959. Net transport costs were reduced from \$130 to 50 million, while net returns from other invisible items amounted to \$180 million.

The net surplus of \$480 million on capital account was the result of an inflow of private capital — mainly in the form of foreign investments in France — and an improvement in the terms of payment, which more than compensated the reimbursement of public debts (including part of the E.P.U. credit). As, in addition, the net balance of the rest of the French franc area switched from a deficit of \$110 million in 1958 to a surplus of \$70 million in 1959, the balance on current and capital account for the French franc area as a whole swung over from a deficit of \$290 million to a surplus of \$1,310 million. This, besides enabling France to repay \$200 million to the International Monetary Fund and to fulfil other official commitments, caused a rise of \$975 million in its official reserves and the foreign assets of the commercial banks.

In Germany the surplus on the current account of the balance of payments was reduced from DM 6.3 milliard in 1958 to DM 4.6 milliard in 1959, while the net outflow of capital (including changes in the terms of payment) rose from DM 3.1 to 6.7 milliard.

After a slowing-down in 1958, both imports and exports expanded vigorously in 1959.* Imports reacted quickly to the business upswing which set in during the second quarter of 1959, and for the year as a whole they amounted (on a c.i.f. basis) to DM 36 milliard, against DM 32 milliard in 1958 — an increase of nearly 12 per cent. in value, representing a rise of 17 per cent. in volume, import prices having continued their downward trend and fallen by 4.2 per cent. Semi-manufactures accounted for over DM 700 million of the increase in imports, food for DM 1.3 milliard and manufactured goods for DM 1.7 milliard. The rising trend which has been noticeable since 1951 in the share of manufactured goods in total imports thus continued, and in 1959 these for the first time constituted the largest group. Exports rose by 11 per cent., i.e. from DM 37 to 41 milliard. Exports of capital goods, which had in previous years shown the highest rates of increase, went up by only 8 per cent. in 1959, against a rise of 17 per cent. for products of the iron and steel and chemical industries and one of 15 per cent. for textiles. In the second half of 1959, however, foreign orders for capital goods increased sharply. Exports of vehicles, which account for almost one-seventh of all exports, expanded by 15 per cent. in 1959.

Receipts derived from government transactions — mainly the stationing of foreign troops in Germany — amounted to DM 3.7 milliard in 1959, but as payments for invisible items of a commercial character rose to DM 4.1

* As from 6th July 1959 the foreign trade of the Saar is included in that of Germany, which is estimated to have increased on that account by 1 to 2 per cent. in the second half of the year. The 1957-59 trade figures have been adjusted to take account of certain government imports not recorded previously.

Germany: Balance of payments.

Items	1957	1958	1959
	in millions of Deutsche Mark		
Merchandise trade (f.o.b.)			
Exports ¹	35,910	36,890	41,030
Imports ¹	28,510	29,380	33,300
Balance of trade	+ 7,400	+ 7,510	+ 7,730
Invisible Items (net)			
Transport	- 690	- 340	- 230
Travel	+ 480	- 150	- 500
Interest and dividends ²	- 400	- 620	- 1,030
Government transactions ²	+ 2,370	+ 3,490	+ 3,650
Other Items	- 1,670	- 1,980	- 2,350
Total	+ 90	+ 400	- 460
Indemnities and grants	- 1,650	- 1,650	- 2,640
Balance on current account	+ 5,840	+ 6,260	+ 4,630
Long-term capital movements (net outflow -)			
Official	- 860	- 1,350	- 2,380
Private	+ 130	- 520	- 1,390
Total	- 730	- 1,870	- 3,770
Balance on current and long-term capital account	+ 5,110	+ 4,390	+ 860
Balanced by			
Short-term capital movements (outflow -)			
Official	- 1,710	+ 220	- 1,170
Private	-	- 740	- 1,200
Total	- 1,710	- 520	- 2,370
Terms of payment (change in favour of Germany +)	+ 1,720	- 680	- 590
Gold and foreign exchange reserves (increase -)	- 5,120	- 3,190	+ 2,100
Total	- 5,110	- 4,390	- 860

¹ Including the net surplus or deficit in respect of merchanting trade. ² Including interest payments under the London Debt Agreement. Interest paid on German-held external bonds is excluded. ³ Including goods and services for foreign troops (in millions of DM): 1957, 2,690; 1958, 3,880; 1959, 4,120.

milliard, there was a deficit of DM 460 million on invisible items taken as a whole, against a surplus of the same magnitude in 1958. The deficit in respect of interest and dividend payments increased from DM 620 million to over DM 1 milliard in 1959. Income on foreign capital invested in Germany rose by DM 600 million, part of which (mainly that earned in the motor-car and oil industries) was reinvested in that country and will thus reappear as an inflow of capital. Income from German capital invested abroad rose by DM 200 million, half of which amount was earned by the Bundesbank on its foreign assets. Expenditure on tourist account showed a marked rise in 1959, with the result that the deficit on this item reached DM 500 million. The net outflow of indemnities and grants, which amounted to DM 1.6 milliard in 1957 and 1958, jumped to DM 2.6 milliard in 1959, two-thirds of the increase being due to exceptional payments.

There was a very large net outflow of capital in 1959, amounting to DM 6.1 milliard for recorded movements (and DM 6.7 milliard if changes

in the terms of payment are taken into account); of the net outflow, DM 3.8 milliard was on long-term and DM 2.4 milliard on short-term account. The deficit on long-term account resulted from a net rise of DM 3.2 milliard in German investments abroad and a decline of DM 600 million in net foreign investments in Germany. The rise in net long-term German investments abroad was almost entirely due to private investment, which nearly doubled, most of the increase taking the form of purchases of foreign securities. This development was assisted by the introduction of foreign securities on German stock exchanges and the rapid growth of investment trusts. Over the last four years net purchases of foreign securities by

Germany: Transactions in German and foreign securities.

Years	Foreign securities			German securities			Net security transactions
	Purchases from foreigners	Liquidation	Net purchases	Sales to foreigners	Liquidation	Net sales	
in millions of Deutsche Mark							
1956	20	5	- 15	770	480	+ 290	+ 275
1957	70	20	- 50	1,360	590	+ 770	+ 720
1958	380	100	- 280	1,800	1,200	+ 600	+ 320
1959	1,990	570	- 1,420	2,500	2,060	+ 440	- 980

German residents have increased by leaps and bounds, while net sales of German securities to foreigners, after a marked rise in 1957, have been declining, and in 1959 net purchases actually exceeded net sales. Whereas in 1958 new investments in foreign securities were about half in bonds and half in shares, in 1959 shares accounted for over two-thirds of purchases. The same shift from fixed-interest-bearing paper to shares is noticeable in the foreign demand for German securities. Official investments abroad rose by nearly DM 1 milliard, of which DM 500 million is accounted for by Germany's subscription to the International Monetary Fund and DM 126 million by its subscription to the European Investment Bank. The net decline of DM 600 million in foreign investment in Germany was due to an outflow of DM 1.4 milliard on official account (including the advance repayment of DM 900 million under the London Debt Agreement), while private investment, mainly direct investment, rose by DM 800 million.

Germany: Short-term investment account.¹

Years	Net German investment abroad			Net foreign investment in Germany			Net position	Change in terms of payment
	Private ²	Official ³	Total	Private	Official	Total		
in millions of Deutsche Mark								
1956	- 209	- 213	- 422	+ 1,103	- 4	+ 1,099	+ 677	+ 540
1957	- 640	- 1,705	- 2,345	+ 637	- 6	+ 631	- 1,714	+ 1,720
1958	- 648	+ 201	- 447	- 90	+ 22	- 68	- 515	- 680
1959	- 1,426	- 1,384	- 2,810	+ 228	+ 214	+ 442	- 2,368	- 590

¹ Outflow (-).

² Mainly commercial banks.

³ Mainly advance payments for defence imports.

The deficit in the short-term capital account jumped from DM 500 million in 1958 to DM 2.4 milliard in 1959, owing mainly to the expansion in advance payments on defence imports, which totalled DM 1.4 milliard. If all official capital movements are excluded, there remains a net outflow of private short-term capital amounting to DM 1.2 milliard, which is chiefly reflected in an increase of over DM 1 milliard in the net foreign claims of commercial banks. Whereas at the end of 1958 the short-term foreign liabilities of German commercial banks exceeded their claims by DM 1.5 milliard, at the end of 1959 the figure had fallen to only DM 300 million.

The large surplus in the balance of payments of the Belgium-Luxemburg Economic Union in 1958 was at least partly connected with the low level of production. With the revival in 1959 the balance became less favourable. In the first half of the year (data for the second half are not yet available) there was a surplus on current account of B.fcs. 2.1 milliard, against one of B.fcs. 10.9 milliard in the corresponding period of 1958, the decline being due mainly to a deterioration in the invisible balance but also to some extent to a fall in exports and a simultaneous rise in imports, which reduced the trade surplus from B.fcs. 4.2 to 1.6 milliard. The deficit on invisibles account was due to a sharp drop in tourist receipts (which had been particularly high in 1958 because of the Brussels Exhibition), a fall in net income from investments abroad and a decline in the earnings of Belgian residents crossing the frontier to work in neighbouring countries. In 1958 the net outflow of private capital had amounted to B.fcs. 5 milliard, of which B.fcs. 2.3 milliard had left the country in the first half of the year. In the first half of 1959 the corresponding figure was B.fcs. 3.2 milliard. Towards the end of the year the outflow of short-term capital was encouraged by higher interest rates abroad. There was a net inflow of long-term official capital amounting to B.fcs. 800 million in the first half of 1959, while movements of short-term official capital resulted in a net outflow of B.fcs. 700 million, mainly ascribable to repayments by the Belgian Treasury of commitments vis-à-vis the Congo.

In 1959 the Netherlands again had a large current external surplus (amounting to Fl. 1.6 milliard), which was partly offset by a net capital outflow of Fl. 1 milliard following the liberalisation measures taken at the end of 1958. Both exports and imports increased and the deficit in the balance of trade rose from Fl. 300 million in 1958 to Fl. 500 million in 1959. Net receipts from invisible items rose by over Fl. 100 million, owing chiefly to an increase in capital income, since shipping receipts, partly on account of the almost complete cessation of liner services to Indonesia, fell off. Income from investments in Indonesia also dried up completely, but this was compensated by higher returns from investments in other parts of the world, mainly those of the big companies such as Royal Dutch, Philips and Unilever. The rapid growth in the amount of Dutch shares in foreign hands will, on the other hand, lead to an increase in dividend payments. Despite their high quotations, there was still an active foreign demand for Dutch securities in 1959, with

purchases — mainly from U.S., German and Swiss buyers — amounting to Fl. 1.3 milliard. But the total of Dutch investments abroad was also somewhat higher, standing at Fl. 1.4 milliard (of which Fl. 930 million represented direct investments and over Fl. 300 million purchases of foreign securities), so that, taking into account other minor items, there was a net outflow of private long-term capital of Fl. 65 million in 1959, against a net inflow of Fl. 470 million in 1958. In addition, there was a net outflow of official capital of just under Fl. 300 million.

The external current surplus of over \$700 million achieved by Italy in 1958 was improved upon in 1959, since the trade deficit was somewhat reduced, while net earnings from invisibles remained at their previous level of \$1.1 milliard. Despite the speeding-up of production, particularly in the second half of the year, the value of imports as measured by the customs statistics increased by only 4 per cent., as a 9 per cent. growth in volume was partly offset by a decline in prices. Exports rose by 20 per cent. in volume but only 12 per cent. in value, their prices also having fallen. As in 1958, manufactures contributed most to the development of exports, one-third of the total increase of some \$320 million in 1959 having been accounted for by machinery and vehicles and another third by textiles and clothing. The stability of net receipts from invisibles was the combined result of a moderate decline in net shipping earnings and workers' remittances and a rise in income from investments and net tourist receipts. The surplus on capital account, which had amounted to over \$100 million in 1958, disappeared in 1959 despite a rise in foreign investments and loans, since this was more than offset by the payment of Italy's subscription to the International Monetary Fund.

The increase in Austria's foreign trade deficit from \$110 million in 1958 to nearly \$140 million in 1959, due to a faster rise in imports than in exports, was roughly compensated by a rise in net receipts from the tourist trade, so that, with other invisibles (including unrequited deliveries to the U.S.S.R.) remaining stable, there was the same small surplus of \$10 million on current account in both years. The capital account, which in 1958 was characterised by a net inflow of funds of \$120 million, as Austria borrowed heavily from abroad (partly to cover the budget deficit and partly to finance the expansion of electrical power stations), was almost in equilibrium in 1959, owing both to a reduction in the inflow of new capital — which declined from \$200 to 140 million — and to a rise in contractual and advance repayments from \$80 to 130 million.

Changes in the balance of payments of Switzerland mainly reflect movements on merchandise account, as net receipts from invisible items are much less subject to fluctuation, though they have increased steadily from rather more than Sw.fcs. 900 million in 1950 to Sw.fcs. 1.6 milliard in 1958, the most recent year for which data are available. Net tourist earnings, at Sw.fcs. 770 million, and net investment income, at Sw.fcs. 550 million, accounted for 80 per cent. of the 1958 total. Remittances by foreign workers to their native countries were estimated at about Sw.fcs. 500 million, this

item having been roughly balanced by royalties and foreign contributions to international organisations in Switzerland. In 1959 net receipts from invisibles are estimated to have amounted to Sw.fcs. 1.9 milliard. As the import surplus in that year was just under Sw.fcs. 1 milliard — against nearly Sw.fcs. 700 million in 1958 — the country is likely to have had a current surplus of some Sw.fcs. 900 million. Issues of foreign loans on the Swiss market amounted to Sw.fcs. 480 million in 1959. This was about a third of the total outflow of capital, which can be put at some Sw.fcs. 1.3 milliard (the result of an outflow of Sw.fcs. 2 milliard in the first eleven months of the year and of the liquidation of Sw.fcs. 700 million's worth of short-term investments abroad by banks in December). As the inflow of foreign capital amounted to some Sw.fcs. 400 million, the net capital outflow roughly matched the surplus on current account.

Of the four northern countries, Denmark and Finland experienced a deterioration in their current account in 1959 and Norway and Sweden an improvement.

In Denmark the large current-account surplus of D.Kr. 870 million achieved in 1958 was almost wiped out in the following year owing to a considerable rise in imports associated with the growth in internal demand. Though exports of both investment and consumption goods increased substantially, the small surplus on merchandise account of D.Kr. 120 million in 1958 was replaced by a deficit of D.Kr. 740 million, which was somewhat more than compensated by net receipts from invisible items amounting to nearly D.Kr. 800 million. There was also a small surplus on the long-term capital account, but the fact that the foreign exchange reserves increased by D.Kr. 380 million in 1959 was essentially due to short-term capital movements.

In Finland the reduction in the surplus on current account was also caused by a big rise in imports. Whereas in 1958 there had been an export surplus of FM 14.6 milliard, in 1959 the balance of trade was practically in equilibrium. As net receipts from invisible items declined somewhat owing to the more liberal exchange policy in regard to services, the surplus on current account was reduced from FM 25 to about 10 milliard. On long-term capital account repayments of foreign loans (mainly contracted during the war or the post-war years), amounting to FM 13 milliard, somewhat exceeded drawings on new credits. Purchases of foreign securities and the payment of Finland's subscription to the International Monetary Fund brought the net outflow of long-term capital in 1959 to FM 5 milliard.

In Norway the deficit on current account was reduced from N.Kr. 1.1 milliard in 1958 to N.Kr. 580 million in 1959, mainly because of a substantial rise in exports and an increase in net shipping receipts. Imports remained at the previous year's level, since a decline in purchases of foreign ships was offset by larger purchases of textile products, chemicals and machinery. Despite the depressed freight market, shipping earnings rose by over N.Kr. 100 million, as the merchant fleet tonnage was about 9 per cent. larger than in 1958. Loans on imports of ships totalled N.Kr. 890 million in 1959 and were the largest single item offsetting the deficit on current account.

The whole of the improvement in the balance of payments of Sweden was due to an expansion in exports, which caused the 1958 deficit of S.Kr. 280 million to be replaced by a small surplus of S.Kr. 60 million, the first in six years. The rise of S.Kr. 620 million in exports was mainly accounted for by three groups of products: machinery and vehicles, metals and pulp. Imports remained at about the same level in both years, while net earnings on invisible items fell off slightly though freight receipts were unchanged. Permission to make direct investments abroad was granted on a somewhat more liberal scale in 1959, in which year they amounted to S.Kr. 210 million (excluding reinvestments), against S.Kr. 170 million in 1958.

All seven countries on the fringe of Europe normally have a deficit on merchandise account. From 1958 to 1959 this was reduced in the case of Portugal, Spain and Yugoslavia, while it increased in that of Greece, Turkey, Iceland and Ireland. The small change in Portugal's position was attributable to a somewhat greater contraction in imports than in exports, while in Spain, in application of the stabilisation programme introduced in mid-1959, imports were severely reduced in spite of a certain degree of liberalisation, and exports rose. The improvement in Yugoslavia's visible trade was entirely due to an increase in exports of machinery and vehicles. In the case of Greece the deterioration in the balance of trade was the result of a fall in exports of tobacco and foodstuffs, while in Iceland and Ireland it was almost wholly attributable to a rise in imports. In Turkey, despite the adoption of stabilisation measures in 1958 and 1959, there was a considerable rise in imports, which was, however, partially offset by a rise in exports. Net receipts from invisible items about covered the deficit on merchandise trade in the case of Greece and Ireland, whose current-account balances were thus in equilibrium, and they left a substantial surplus in the case of Spain, owing to its greatly reduced import surplus.

* * *

The second year of the existence of the European Economic Community was marked by the coming into effect of the reduction of tariff rates and of the enlargement of quotas agreed upon for 1st January 1959. The second 20 per cent. increase in quotas took place on 1st January 1960. In May 1960 the governments of the countries belonging to the E.E.C. decided to speed up the implementation of the Common Market by bringing forward by one year, to 1st January 1961, the third 10 per cent. cut in their tariff barriers and abolishing all quotas by the end of 1961. The first step towards the setting-up of the common external tariff is also to be advanced from 1st January 1962 to 1st January 1961. The European Investment Bank approved seven loans in 1959 for a total amount of \$52.1 million, of which \$13.5 million had been paid out by February 1960. They related mainly to power and chemical projects in Italy and France.

On 20th November 1959 seven countries — Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom — gave their approval to a convention establishing the European Free Trade Association. The

Convention, which was signed on 4th January 1960 in Stockholm and entered into force on 3rd May, having by that date been ratified by all the countries concerned, establishes a free market between its members by abolishing tariffs and other obstacles to trade in industrial products over a period of ten years, each country remaining free, however, to fix its own tariff vis-à-vis third countries. In the case of agricultural products and fish, special agreements may be concluded between member countries in order to help to increase the trade of those among them which are heavily dependent on the export of such products. In a special resolution the seven governments declared their determination to do everything in their power to avoid a division of Europe, and the schedule for the progressive reduction of customs duties and the elimination of quantitative restrictions was in fact drawn up in such a way as to keep in step with the dismantling of tariffs and quotas within the E.E.C. as originally planned in the Rome Treaty. The first 20 per cent. tariff reduction among the E.F.T.A. countries is due to take place on 1st July 1960, thus coinciding with the second reduction of 10 per cent. among the member countries of the E.E.C. The latter having now decided to accelerate the establishment of the Common Market, the Council of Ministers of the E.F.T.A. countries resolved at its meeting of May 1960 to examine at once the possibility of a more rapid scaling-down of their tariffs.

As intra-European trade liberalisation had reached nearly 90 per cent. at the beginning of 1959, there remained relatively little scope for further progress, except in the case of a few countries. On 1st March 1960 Denmark raised its overall percentage from 86 to 95, all three groups of products participating in the increase. Turkey, which had for many years suspended all liberalisation measures, re-introduced some in the course of 1959 and in February 1960, but as these have not been notified to the O.E.E.C. the percentages are not known. Increases were also made by France and the United Kingdom. Spain joined the O.E.E.C. in July 1959. On the basis of its private imports in 1950 its overall percentage of liberalisation on 1st January 1960 amounted to 55, the figure for foodstuffs being 60 per cent., that for raw materials 70 per cent. and that for manufactured products only 29 per cent. The following countries substantially increased their liberalisation of dollar imports (the percentages reached on 1st January 1959 and 1st March 1960 respectively are shown in brackets): Benelux (86 to 96), Denmark (66 to 97), France (50 to 80, and further to 88 if a subsequent rise on 1st May 1960 is taken into account), Italy (68 to 90), Portugal (53 to 98), Sweden (68 to 91), Turkey (0 to 18) and the United Kingdom (73 to 93). For all countries combined the percentage rose from 73 to 86 and is thus not far off that of intra-European liberalisation, which stood at 92 on 1st January 1960. The majority of O.E.E.C. countries now apply their intra-European or dollar liberalisation lists to most non-member countries.

In the course of 1959 further steps were taken with regard to the liberalisation of invisibles, mainly in relation to insurance payments, and towards the end of the year a code of liberalisation of capital movements was adopted by the O.E.E.C. Council. The latter, in contrast to the code

applying to merchandise trade and invisible transactions, which fixed from the outset targets far beyond what had been achieved by the member countries, appears to provide for nothing more than the maintenance of the degree of liberalisation already attained.

In January 1960 a meeting of the Ministers of the twenty member and associate countries of the O.E.E.C. and a representative of the E.E.C. approved a resolution proposing that a study be made of the possibilities of reorganising the O.E.E.C. The meeting appointed a committee of four experts, whose report, published in April, suggests the creation of a more comprehensive body to be called the "Organisation for Economic Co-operation and Development".

Within the wider framework of the G.A.T.T. three main problems have claimed the attention of the Contracting Parties, namely, the preparations for the tariff conference of 1960-61, agricultural protectionism and the securing of markets for the products of the less-developed countries — all three being parts of the programme for the expansion of trade drawn up in 1958. At the Fifteenth Session, which was held in Tokyo in the autumn of 1959, the matter of quantitative restrictions was discussed in the light of the decision made by the Executive Directors of the International Monetary Fund in October 1959 stating that there was no longer any justification for discrimination by members whose current receipts were largely in convertible currencies and that they should proceed with all feasible speed to eliminate it. The contracting parties reaffirmed their intention of abolishing as quickly as possible the remaining restrictions and discriminations. Reports relating to the E.E.C. and to Latin American integration were discussed and the question of the disposal of commodity surpluses, which has been under consideration since 1955, was further examined. The possibility of extending the benefit of the most-favoured-nation clause to Japan is to be considered in consultation with each of the fourteen countries still withholding it under Article XXXV. As was stated repeatedly at the Fifteenth Session, it was felt that this session marked the end of the post-war period dominated by the use of quantitative restrictions for balance-of-payments purposes and that now other, though no less difficult, tasks were awaiting solution.

VI. Gold, Reserves and Foreign Exchange.

In 1959 the volume of international liquidity increased further, as it had done the year before. However, the pattern of developments in this field was markedly different in several respects from that of 1958. Firstly, the overall U.S. balance-of-payments deficit was settled more in dollars and less in gold and the rest of the world added more to its foreign exchange holdings than to its gold reserves. Secondly, the less-developed countries shared in the general rise in gold and foreign exchange holdings. Thirdly, the International Monetary Fund's resources were substantially increased.

The first of these differences is illustrated by the fact that countries other than the United States added \$819 million to their gold reserves and \$1,564 million to their short-term dollar holdings, whereas the year before the corresponding increases were \$3,024 million and \$974 million respectively. On the other hand the U.S. gold stock declined by \$1,075 million, compared with \$2,275 million in 1958, and U.S. short-term foreign liabilities in dollars rose by \$3,178 million, compared with \$1,001 million the previous year. The second difference can be seen by comparing the changes during 1958 and 1959 in the gold and short-term dollar holdings of countries other than the United States, western Europe, Canada, Japan and Venezuela. In 1958 these countries experienced a loss of \$101 million, whereas last year their gold and short-term dollar holdings went up by \$521 million. The third difference lay in the rise from \$9.2 to 14 milliard which occurred in the total resources of the International Monetary Fund as a result of the general 50 per cent. increase in members' quotas.

Thanks to a sharp rise in South African output, which exceeded 20 million ounces, world gold production outside the U.S.S.R. is estimated to have amounted in 1959 to 32.6 million ounces, worth some \$1,140 million at \$35 per ounce. Sales of gold by the U.S.S.R. appear to have been a little larger than in 1958, so that total fresh gold supplies may be estimated at about \$1,390 million. The rise in official gold reserves outside the Chinese-Soviet group of countries was somewhat less than in 1958 and may be put at \$820 million. Western countries other than the United States, together with international institutions, added \$1,894 million to their gold reserves in 1959, compared with \$3,176 million the year before.

On the London gold market, prices during 1959 were for long periods above the U.S. selling price of \$35.0875. In the first and last parts of the year, however, quotations were around \$35.05 — owing partly to Russian sales (in the former period) and partly to large special dollar payments made by the United Kingdom. Early in 1960, in the absence of either of these factors, prices rose again and had reached \$35.12 by the end of March.

The principal countries of Europe, when they made their currencies convertible on current account for non-residents at the end of 1958, did so

from a situation of strength. This has been shown by the generally very satisfactory development of their balances of payments and monetary reserves since the beginning of 1959. Further evidence of the solid foundation upon which their external positions now rest is provided by developments in the foreign exchange markets. During 1959 and the early months of 1960 these currencies have consistently been quoted at, or in most cases well above, par on the U.S. dollar and a number of them have for much of the period under review been at or very close to their upper limits against the dollar. In the context of full convertibility for current account non-resident balances and of the substantial overall measure of freedom from direct controls which now exists for trade and other current transactions between these countries and the rest of the world, the behaviour of their currencies on the exchange markets may be said faithfully to reflect the true relation between demand and supply.

Two European countries, Spain and Iceland, devalued their currencies and unified their exchange rate structures during the period under review. In both cases these measures formed part of a general programme of economic stabilisation backed by substantial foreign credits. Elsewhere in Europe a number of countries reduced still further what was left of their exchange restrictions. In Latin America a free-market exchange system has been introduced in Uruguay, while in the rest of the world the currencies of Indonesia and Morocco were devalued.

* * *

Total output of gold in 1959 (excluding that of the U.S.S.R.) is estimated to have risen by 2.2 million ounces above the 1958 level and to have amounted to 32.6 million ounces — a new post-war record. In percentage terms, the rise works out at rather more than 7 per cent. — also a record for the post-war years. It resulted from the increase in output by the South African mining industry, which went up from 17.7 to 20.1 million ounces. In the rest of the countries under consideration taken as a whole, production fell slightly, owing to rather lower output from the Canadian and U.S. mines. Ghana's gold output increased by a further 7½ per cent in 1959 and reached a level almost 45 per cent. higher than that of 1956.

The rise of 13½ per cent. in South African gold production was the result of an increase in the scale of mining operations, together with an improvement in the yield of gold from the seams worked. According to figures published by the Transvaal and Orange Free State Chamber of Mines, the total amount of ore milled by its members (which together account for almost 98 per cent. of the Union's total gold output) went up by 7½ per cent., from 65.5 to 70.5 million tons. At the same time the average yield of gold per ton of ore milled rose by 6½ per cent., from 5.23 dwt. to 5.57 dwt., as a result of more intensive working of the new mines in the West Witwatersrand and in the Orange Free State. Since 1953, the last year before these mines began to contribute appreciably to the Union's output, the average yield of the ores

World gold production.

Countries	1929	1940	1946	1950	1956	1957	1958	1959
	weight, in thousands of fine ounces							
Union of South Africa	10,412	14,046	11,927	11,664	15,897	17,031	17,656	20,064
Canada	1,928	5,333	2,849	4,441	4,384	4,434	4,571	4,484
United States	2,045	4,799	1,625	2,375	1,838	1,817	1,801	1,386
Australia	427	1,644	624	870	1,030	1,084	1,100	1,090
Ghana	208	896	586	689	638	790	853	917
Southern Rhodesia	561	826	545	511	535	537	555	567
Philippines	163	1,121	1	334	406	380	423	403
Belgian Congo	158	562	332	339	374	374	356	340
Mexico	655	893	421	408	350	346	332	314
Colombia	137	632	437	379	438	325	372	398
Japan	335	867	40	156	295	303	310	327
Nicaragua ¹	12	164	204	230	209	199	210	209
India	364	289	132	197	209	179	170	166
Peru	120	281	158	127	159	162	159	150*
Brazil ²	112	150	140	131	122	121	119	114
Chile	33	335	231	192	94	104	111	110*
Total listed	17,670	32,818	20,452	23,043	26,978	28,186	29,099	31,039
Other countries ³	930	4,182	1,249	1,657	1,422	1,414	1,302	1,561
Estimated world total ³	18,500	37,000	21,700	24,700	28,400	29,600	30,400	32,600*
Value of estimated world total at \$35 per fine ounce	in millions of U.S. dollars							
	650 ⁴	1,295	760	865	995	1,035	1,065	1,140

* Estimated or provisional figure.
¹ Exports, representing about 90 per cent. of total production. 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.

milled throughout the industry has risen by 43 per cent., while the quantity of ore milled has gone up by not quite 20 per cent. Last year's substantial increase in output would not have been possible without the very large additions to the labour force which occurred. The average number of natives employed in the mines was 380,000, compared with 340,000 the year before. There was also a slight increase in the European labour force.

The effect of these favourable developments in output and yield was to increase the industry's profits for the sixth year in succession. Owing to the fact that many of the mines produce uranium as well as gold and that in a number of them the method of imputing costs as between these two activities was changed in 1959, a comparison of profits from gold production in 1958 and 1959 is not possible. Combined profits from gold and uranium production earned by members of the Transvaal and Orange Free State Chamber of Mines, however, were up 16 per cent., from SA£99.1 to 114.9 million.

Output of uranium oxide in South Africa during 1959 amounted to 12.5 million lbs., compared with 12.1 million the year before, and no further rise in the level of production is expected for the next few years. This is because of the radical change that has recently occurred in the world supply

and demand situation for uranium. In part, this change is the result of the enormous increase in output that has taken place — from about 8,000 tons in 1955 to well over 40,000 tons last year. Furthermore, the demand for uranium during the next few years is now certain to be less than was supposed two years ago. The nuclear-power programmes of the United Kingdom and Euratom were greatly reduced at the end of 1958, and towards the end of last year the budget of the U.S. Atomic Energy Commission was substantially cut. Canada, whose 1959 output was 15.5 million lbs., is the producer with the shortest contracts, most of which expire early in 1962, and Canadian production plans have therefore been the most seriously affected by the curtailment of future demand, especially on the part of the United States. South Africa's uranium contracts run off more gradually, between 1962 and 1966, and, moreover, when these contracts expire and uranium is again sold under ordinary marketing conditions, the Union's mines will be in a relatively favourable position because they are also producers of gold. Another factor affecting the prospects of uranium producers is the greater efficiency that is being achieved in the use of the metal, which means that smaller quantities are needed than in the past in order to produce a given amount of power.

Estimated sources and uses of gold.

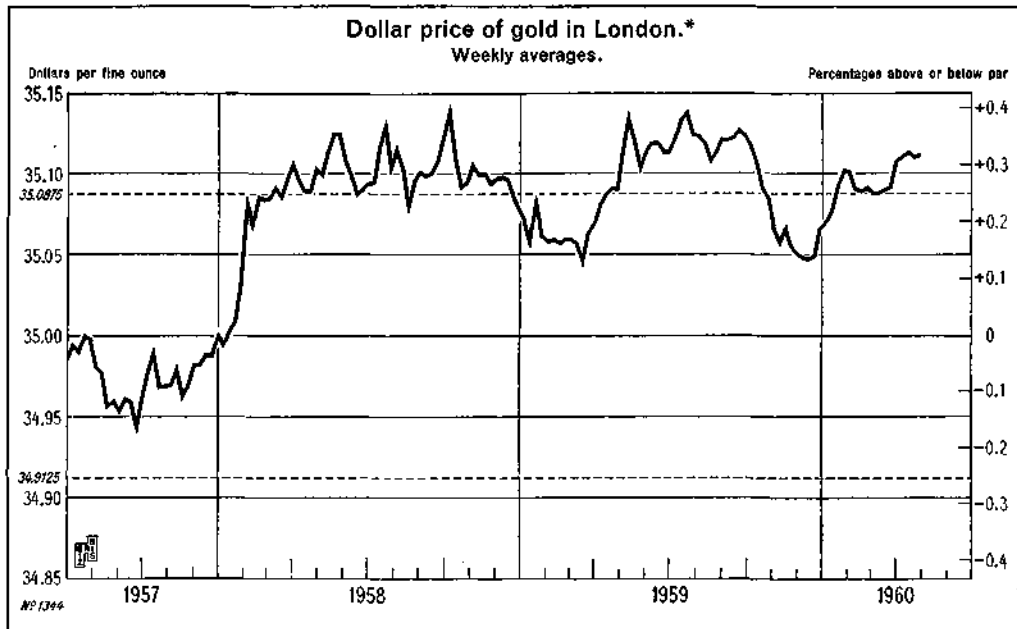
Items	1955	1956	1957	1958	1959
	in millions of U.S. dollars				
Gold production ¹	955	995	1,035	1,065	1,140
Sales by the U.S.S.R.	75	150	260	220	250
Total	1,030	1,145	1,295	1,285	1,390
Increase in official gold stocks ²	655	505	725	905	820
Other uses ³	375	640	570	380	570

¹ Excluding the U.S.S.R. ² Excluding the U.S.S.R., other eastern European countries and mainland China.

³ Residual figure.

Note: Figures of official gold stocks need to be approached with caution, for two reasons. Firstly, to the extent that unreported stocks of gold exist, nothing can be known for certain about them. Secondly, gold is placed on deposit at the Bank for International Settlements by central banks and this makes it possible that a part of some countries' official gold holdings is counted twice, both in this table and in the table on page 138, once as part of the reserves of the country in question and again as part of the B.I.S. gold stock, which is included on page 138 in the figure for "Others" under continental western Europe.

The value of world gold production outside the U.S.S.R. in 1959 is estimated to have been \$1,140 million. If to this figure is added \$250 million — the estimated value of Soviet gold sales — total fresh supplies of gold that became available last year may be tentatively put at \$1,390 million's worth. Official gold stocks, excluding those of the Chinese-Soviet group of countries, are estimated to have risen by \$820 million, compared with \$905 million in 1958, so that the residual figure for the amount of gold which went into non-monetary uses is larger than in 1958. As this figure is obtained from three others, all of which, in varying degrees, are in the nature of estimates, such interest as it has lies in the changes from one year to another. During 1959 no signs were evident of any general increase in gold hoarding and it is therefore more likely that, if non-monetary use of gold increased, it was due to greater demands from industry.



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

On the London gold market, prices moved within a narrower range during 1959 than in the previous year. For most of the first quarter quotations were tending to decline from the early January level of around \$35.08 until they were little above \$35.04 in the third week of March. At this time sales by the U.S.S.R. were a factor influencing prices. Late in March, however, a rise began which took quotations above the U.S. selling price of \$35.0875 in mid-April, and a peak of \$35.1450 was reached at the "fixing" on 14th May. Subsequently, and until the last week of October, prices, although somewhat lower, remained constantly above the U.S. selling price. Early in November quotations fell to about \$35.05, around which level they varied narrowly until the very end of the year, when a further rise began that had carried them by the end of January 1960 above \$35.10. From there they declined a little before going up at the end of March as high as \$35.12 again. Thus in 1959 and the first quarter of 1960 the price of gold in London continued to be mostly above the New York selling price, except during two periods. The first of these, already referred to, was in the early months of 1959, when substantial Russian offerings were made and, in addition, the United Kingdom repaid \$200 million (in March) to the International Monetary Fund. During the second, which covered roughly the last two and a half months of the year, the United Kingdom repaid \$250 million to the Export-Import Bank and \$185 million to the U.S. and Canadian Governments.

* * *

It is estimated that total official gold stocks (excluding those of the Chinese-Soviet group of countries) increased by \$819 million in 1959 and amounted to \$40,681 million at the end of the year. Three big movements

World gold and short-term dollar holdings.¹

Areas and countries	End of 1958			End of 1959			Change in 1958	Change in 1959
	Gold	Dollars	Total	Gold	Dollars	Total		
In millions of U.S. dollars								
Continental western Europe								
Austria	194	411	605	292	331	623	+ 153	+ 18
Belgium-Luxemburg	1,278	131	1,409	1,142	146	1,288	+ 345	- 121
Denmark	31	169	200	31	137	168	+ 57	- 32
Finland	35	69	104	38	77	115	+ 5	+ 11
France	750	532	1,282	1,290	655	1,945	+ 347	+ 663
Germany	2,639	1,755	4,394	2,637	1,987	4,624	+ 295	+ 230
Greece	17	126	143	26	186	212	- 24	+ 69
Italy	1,088	1,121	2,207	1,749	1,369	3,118	+ 676	+ 911
Netherlands	1,050	339	1,389	1,132	485	1,617	+ 442	+ 228
Norway	43	130	173	30	95	125	+ 35	- 48
Portugal	493	163	656	548	138	686	+ 53	+ 30
Spain	58	36	94	55	86	141	- 31	+ 47
Sweden	204	303	507	191	213	404	+ 28	- 103
Switzerland	1,925	852	2,777	1,934	966	2,900	+ 92	+ 123
Turkey	144	20	164	133	31	164	+ 2	+ 0
Others ²	560	649	1,209	518	558	1,076	+ 363	- 133
Sub-total	10,507	6,806	17,313	11,746	7,460	19,206	+ 2,838	+ 1,893
European dependencies	161	124	285	117	128	245	+ 2	- 40
Total continental western Europe and dependencies	10,668	6,930	17,598	11,863	7,588	19,451	+ 2,840	+ 1,853
Sterling area	3,605	1,284	4,889	3,241	1,472	4,713	+ 887	- 176
of which United Kingdom	2,850	873	3,723	2,500	971	3,471	+ 848	- 252
Canada	1,078	2,019	3,097	960	2,195	3,155	+ 374	+ 58
Latin America	1,734	2,283	4,017	1,637	2,272	3,909	- 351	- 108
of which Venezuela	719	494	1,213	654	277	931	- 341	- 282
Asia	662	1,970	2,632	864	2,490	3,354	+ 308	+ 722
of which Japan	159	935	1,094	279	1,260	1,539	+ 380	+ 445
Other countries ³	201	129	330	202	162	364	- 60	+ 34
All countries except the United States³	17,948	14,615	32,563	18,767	16,179	34,946	+ 3,998	+ 2,383
United States	20,582	—	20,582	19,507	—	19,507	- 2,275	- 1,075
All countries³	38,530	14,615	53,145	38,274	16,179	54,453	+ 1,723	+ 1,308
International institutions	1,332	1,544	2,876	2,407	3,158	5,565	+ 179	+ 2,689
Grand total³	39,862	16,159	56,021	40,681	19,337	60,018	+ 1,902	+ 3,997

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 Includes Yugoslavia, Bank for International Settlements (including European Payments Union account until December 1958 and European Fund account thereafter), gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold and unpublished gold reserves of certain western European countries. ³ Excludes gold reserves of the U.S.S.R., other eastern European countries and mainland China.

went to make up this change. The U.S. gold stock declined by \$1,075 million, international institutions' holdings rose by exactly the same amount and gold held by all the other countries in the table went up by \$819 million.

The U.S. gold loss occurred mainly in the first eight months of the year, although a modest rise during September and October was followed by further losses in November and December. Altogether in 1959 the United States sold \$969 million's worth of gold to foreign countries and transferred a net amount of \$73 million's worth to the International Monetary Fund. The chief purchasers of U.S. gold were the United Kingdom (\$350 million), France (\$266 million) and Japan (\$157 million). In June 1959 the United States transferred \$344 million to the International Monetary Fund in payment of its increased gold subscription; during the second half of the year, however, the Fund made net gold sales of \$280 million to the U.S. Treasury, as a result of which the Fund's investments in U.S. Treasury bills rose between 31st July and 31st October 1959 from \$200 to 500 million.

The rise of \$1,075 million in international institutions' gold reserves was overwhelmingly the result of gold payments made to the International Monetary Fund. During 1959 member countries paid in altogether \$1,203 million on subscription account, while \$271 million's worth was sold by the Fund to the U.S. Treasury. The difference of \$143 million between the net effect of these two items and the figure of \$1,075 million is mostly accounted for by the fact that something like half of the \$200 million repurchase of its currency made by France in November 1959 was effected in gold.

Turning to the changes that occurred in the gold reserves of countries other than the United States, the aggregate rise of \$819 million in 1959 compares with one of \$3,024 million the year before. The largest single change between the two years, and one which accounts for over 70 per cent. of the difference between these two figures, was the fall of \$350 million which occurred in the U.K. gold reserve during 1959 after a rise of \$1,250 million the year before. In continental western Europe gold reserves went up by \$1,239 million in 1959, compared with \$1,874 million in 1958. The principal gainers last year were Italy (\$663 million) and France (\$540 million); none of the addition to the former's holdings came from purchases in the United States, while roughly half of the latter's did. Austria and the Netherlands also added substantially to their gold reserves, while the Belgium-Luxemburg Economic Union lost \$136 million. Canada's gold reserve fell by \$118 million, of which nearly half was paid to the International Monetary Fund. Japan's gold reserve rose by \$120 million, purchases totalling \$157 million from the United States having been partially offset by a gold subscription payment of \$63 million to the Fund. In the rest of Asia official gold stocks went up by \$82 million, of which Iraq accounted for \$50 million. Elsewhere, there were declines of \$65 million and \$30 million respectively in the gold reserves of Venezuela and Cuba.

Gold and short-term dollar holdings of countries other than the United States and of international institutions totalled \$40,511 million at the end of

1959, having risen by no less than \$5,072 million from the end-of-1958 figure of \$35,439 million. Countries other than the United States increased their gold and short-term dollar holdings by \$2,383 million in 1959, compared with a rise of \$3,998 million the year before. Broadly speaking, the industrialised countries gained much less than they had in 1958, while the less-developed countries, which had suffered some losses in that year, strengthened their positions in 1959. Continental western Europe's gains were \$1.9 milliard, compared with \$2.8 milliard in 1958, rather more than one-third of the difference between these figures being accounted for by gold subscription payments to the Fund. Both Italy and France improved on their already considerable gains of 1958. Germany and the Netherlands were the only other big gainers in Europe, though many countries continued to add somewhat to their gold and dollar holdings. Under the heading "Others" a large fall occurred, following distribution amongst the creditor members of the European Payments Union of \$167 million of the Union's assets, a transfer which was only partially offset by call-ups of money for the European Fund totalling \$33 million. The sterling area's gold and dollar balances fell by less than those of the United Kingdom, so that the rest of the sterling area gained \$76 million. If to the balances of these latter countries and the dependencies of continental western Europe are added those of Latin America (excluding Venezuela), Asia (excluding Japan) and the group labelled "Other countries", it is found that the non-industrialised and semi-industrialised countries of the world, which had experienced a fall of \$101 million during 1958 in their gold and short-term dollar assets, added \$521 million to them in 1959, so that they totalled \$6,644 million at the end of the year. Both Japan and Venezuela repeated their experiences of 1958, the former country raising its holdings to more than twice the end-of-1957 level, while Venezuela's losses by the end of 1959 amounted to 40 per cent. of its assets two years previously.

Western countries other than the United States added \$1,564 million to their short-term dollar holdings in 1959, nearly twice as much as the rise in their gold reserves. The year before their dollar balances had gone up by \$974 million and their gold reserves by more than three times as much, namely \$3,024 million. Furthermore, within the rise in dollar balances non-official holders accounted for \$1,090 million in 1959, against only \$226 million in 1958. These differences between the two years are partly the result of the fact that the monetary reserves of Belgium and the United Kingdom, which consist almost entirely of gold, rose substantially in 1958 and then fell appreciably last year. In addition, however, they were also due to the rise in U.S. short-term interest rates and to the greater freedom now allowed in some countries for the retention of foreign exchange in private hands. Foreign holdings of U.S. Government bonds and notes with original maturities of more than one year (which are not included in the table on page 138) rose from \$1,478 to 2,164 million during 1959, after having been fairly stable at about \$1,500 million since 1955. International institutions increased the amount of such assets in their portfolios by \$165 million. The United Kingdom's holdings of bonds and notes rose by \$129 million and those of Canada

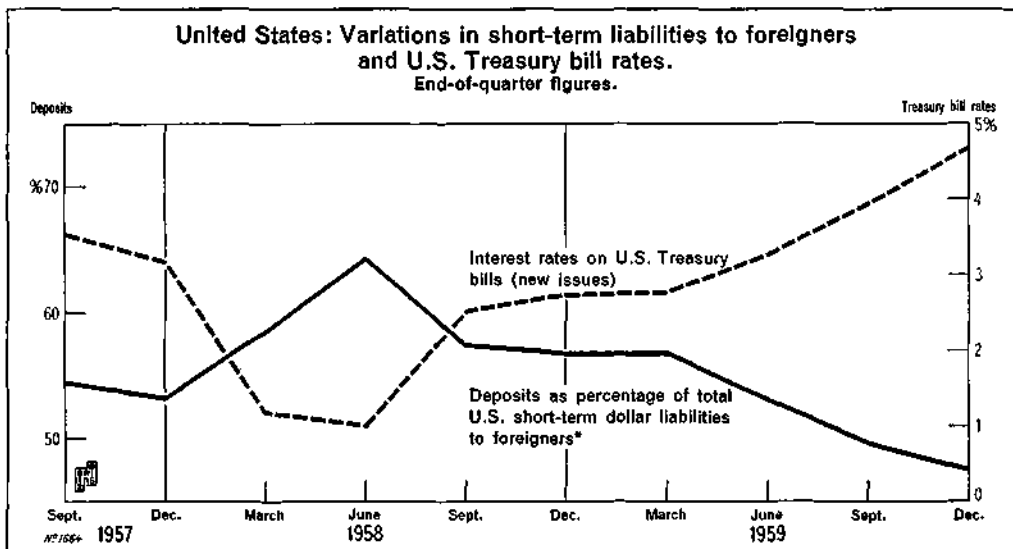
United States: Short-term liabilities to foreigners, by types.

End of	Deposits		U.S. Treasury bills and certificates ²	Other liabilities ³	Total
	Total	Of which at Federal Reserve Banks ¹			
In millions of dollars					
1957 September	7,568	337	5,021	1,334	13,943
December	7,641	356	5,372	1,341	14,354
1958 March	8,441	266	4,601	1,400	14,442
June	9,011	269	4,297	1,268	14,576
September	8,598	258	5,115	1,230	14,943
December	8,723	272	5,372	1,249	15,344
1959 March	8,906	308	5,467	1,304	15,677
June	8,693	294	6,275	1,404	16,372
September	8,523	312	7,128	1,503	17,154
December	8,174	345	7,474	1,548	17,196

¹ Excluding deposits of international institutions at Federal Reserve Banks, which are, however, included in total deposits. ² Excluding non-interest-bearing demand notes held by the I.M.F. ³ Consisting chiefly of bankers' acceptances and commercial paper.

by \$111 million. Sweden and Denmark, which had previously held virtually none of this type of dollar asset, raised their holdings by \$91 and 58 million respectively.

The level of U.S. short-term interest rates during 1959 helped to discourage the conversion of foreign-owned dollars into gold. At the same time the development of appreciable differences in the yields obtainable on different types of short-term investments gave rise to considerable changes in the pattern of foreign dollar holdings. This is clearly shown by the graph below, in which the percentage of short-term foreign dollar assets held in the form of deposits varies inversely with the level of Treasury bill rates in New York. That these changes are so pronounced is due, in large measure, to the



* Excluding non-interest-bearing U.S. Government demand notes held by the International Monetary Fund.

present statutory ceilings, laid down in Regulation Q issued by the Board of Governors of the Federal Reserve System, on interest payable on time and savings deposits by commercial banks that belong to the Federal Deposit Insurance Corporation. During the first three quarterly periods covered by the table and the graph, when the Treasury bill rate fell from about $3\frac{1}{2}$ per cent. to below 1 per cent., foreigners increased their dollar deposits by \$1,423 million and reduced their holdings of government and private short-term paper by \$790 million. From July 1958 until the end of last year, during which time foreign short-term dollar assets increased by \$2,620 million and the U.S. Treasury bill rate rose steadily to well over 4 per cent., the reverse movement took place. Foreigners' holdings of money-market paper increased by \$3,457 million, while their dollar deposits declined by \$837 million.

Besides influencing in this way the type of dollar assets held by foreigners, Regulation Q has also had the side-effect of stimulating the growth of a market in dollar deposits outside the United States. At times when the interest rates paid on deposits by banks subject to Regulation Q are at the statutory ceilings and the cost of borrowing from these banks is considerably higher, it is possible for foreigners to borrow from and to lend to each other in U.S. dollars at interest rates inside the margins set by the U.S. banks. The separation of different sectors of the short-term money market is also perhaps one of the reasons for the relatively important fluctuations, which were particularly marked during the early months of 1960, in the interest rate pattern on the New York money market.

The following table and graph illustrate the changes that occurred last year in the net monetary reserves of western European countries. Reserve gains were neither so large nor so widespread as they had been in 1958, but the general picture remained favourable. Although six of the countries listed in the table lost reserves during 1959, in three of them — Germany, the Netherlands and Sweden — these declines were more than offset by increased commercial-bank holdings of foreign exchange. In Germany and the Netherlands this development was stimulated by official measures designed to prevent their balance-of-payments surpluses from leading to an excessive increase in internal liquidity. In the last quarter of 1959 reserves were declining in a number of countries, and this continued during the first three months of 1960, when no general pattern was evident in the movement of European reserves.

The most encouraging reserve development in Europe during 1959 was the improvement of some \$1 milliard that took place in the French position following the devaluation, the import and exchange liberalisation and the budgetary measures put into force at the very end of 1958. In fact the real improvement in the French external situation during last year was of the order of \$1.7 milliard, since repayments totalling \$300 million were made on E.P.U. debts, \$200 million was repaid to the I.M.F. and \$159 million to other creditors. This spectacular change in France's position was due, to the extent of some \$750 million, to a surplus in the current balance of payments and, for the remaining \$950 million, to the reversal of the previously adverse

European countries: Reserve positions.

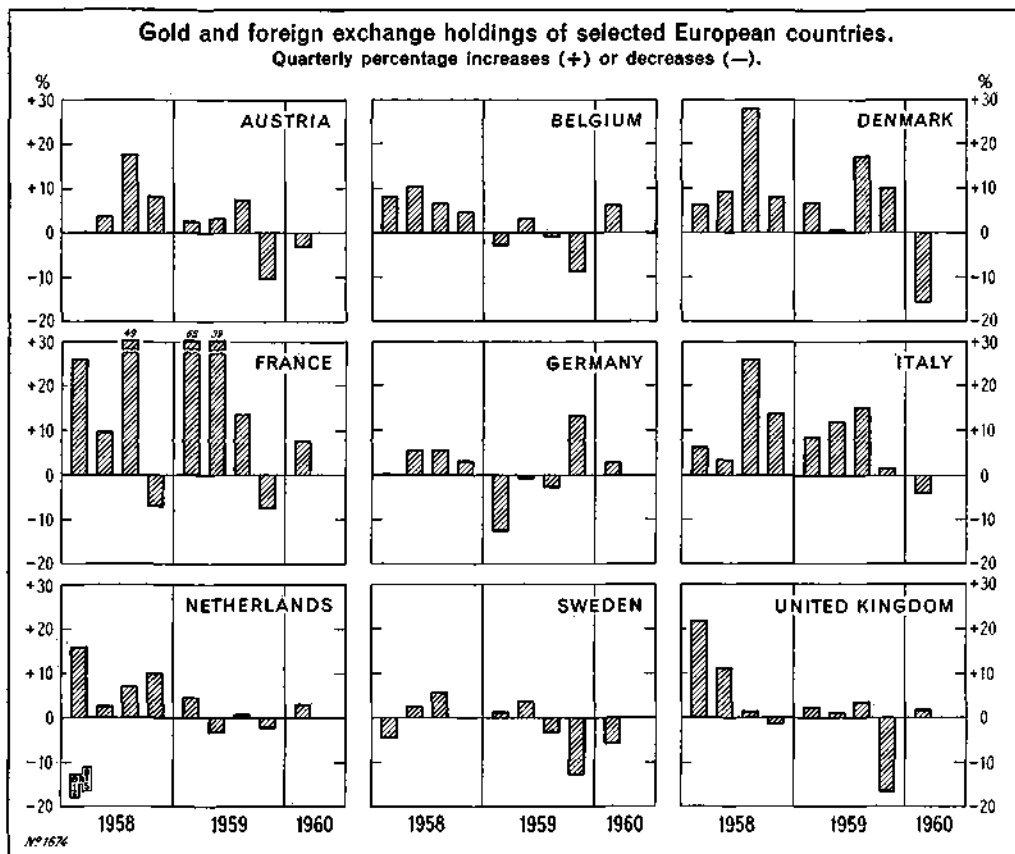
Countries	End of year	Net reserves	Net I.M.F. position	Net reserves plus or minus net I.M.F. position	Credit facilities in I.M.F.	Net reserves plus credit facilities in I.M.F.
Austria	1957	489	13	502	63	552
	1958	655	13	668	63	718
	1959	676	19	695	94	770
Belgium-Luxemburg . . .	1957	1,003	7	1,010	242	1,245
	1958	1,325	57	1,382	292	1,617
	1959	1,206	85	1,291	432	1,638
Denmark	1957	136	— 26	110	43	179
	1958	205	—	205	68	273
	1959	274	33	307	163	437
Finland	1957	63	10	73	48	111
	1958	143	10	153	48	191
	1959	195	14	209	71	266
France	1957	371	—131	240	394	765
	1958	712	—262	450	263	975
	1959	1,720	16	1,736	803	2,523
Germany	1957	4,464	83	4,547	413	4,877
	1958	5,138	147	5,285	477	5,615
	1959	4,926	268	5,194	1,056	5,922
Greece	1957	188	—	188	—	188
	1958	166	—	166	—	166
	1959	203	15	218	75	278
Italy	1957	1,311	—	1,311	—	1,311
	1958	2,075	45	2,120	45	2,120
	1959	2,953	68	3,021	338	3,291
Netherlands	1957	958	—	958	275	1,233
	1958	1,343	69	1,412	344	1,697
	1959	1,331	103	1,434	516	1,847
Norway	1957	151	13	164	63	214
	1958	208	13	221	63	271
	1959	240	25	265	125	365
Portugal	1957	750	—	750	—	750
	1958	776	—	776	—	776
	1959	808	—	808	—	808
Spain	1957	103	—	103	—	103
	1958	53	10	63	10	63
	1959	198	— 40	158	60	258
Sweden	1957	445	25	470	125	570
	1958	471	25	496	125	596
	1959	421	38	459	188	609
Switzerland	1957	1,885	—	1,885	—	1,885
	1958	2,053	—	2,053	—	2,053
	1959	2,058	—	2,058	—	2,058
Turkey	1957	— 33	— 11	— 44	32	— 1
	1958	48	— 28	20	15	63
	1959	12	— 14	— 2	72	84
United Kingdom	1957	2,273	—334	1,939	966	3,239
	1958	3,069	—318	2,751	982	4,051
	1959	2,736	65	2,801	2,015	4,751

Note: 1. Net reserves consist of central-bank and/or other official holdings of gold and foreign exchange, excluding I.M.F. and (where it is possible to do so) E.P.U. positions and, for 1959, claims or debts arising out of the liquidation of the E.P.U. The figures are also net of any other foreign exchange liabilities shown in the central-bank returns or other official sources. For France, Italy, Spain, Switzerland and the United Kingdom the net reserves consist of gold and convertible currencies only. 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 holdings 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 is normally prepared to hold.

leads-and-lags movement, to a substantial liquidation of foreign security holdings and a repatriation of funds and to an inflow of foreign capital stimulated by the relaxation of exchange restrictions.

Spain's position also improved greatly from the second half of the year onwards, after the peseta was devalued in the context of a general economic stabilisation programme. Part of the rise that has since occurred in the Spanish reserves is attributable to borrowings of \$50 million from the International Monetary Fund and of \$24 million from the European Fund, but the improvement has gone far beyond what can be imputed directly to these two sources of support. During the last five months of 1959, at a time of the year when exports are seasonally low, the reserves quadrupled from \$49 to 198 million, and in the first three months of 1960 they rose further to \$300 million.

For the second year in succession Denmark, Finland and Norway all added substantially to their central reserves, which are now in a healthier state than at any time since the war. There were signs, however, at the end of the year of a turn-round in the first two of these countries. In Denmark the central reserves were still rising during the last quarter of the year, but the foreign exchange position of the commercial banks deteriorated by \$28 million, and in the first quarter of 1960 the combined foreign assets of the central bank and the commercial banks declined by \$53 million.



Italy's net reserves of gold and convertible currencies, which had risen by almost 60 per cent. in 1958, went up again last year by a further 40 per cent. and had reached almost \$3 milliard at the end of 1959. The commercial banks added \$299 million to their foreign exchange assets last year but their currency liabilities went up by \$368 million. Towards the end of the year the authorities placed substantial amounts of foreign exchange at the disposal of the banks with the object of encouraging them to reduce their foreign exchange liabilities. As a result, the official reserves declined from \$2,991 to 2,834 million between the end of November 1959 and the end of March 1960. As a counterpart to this movement, the net foreign exchange position of the commercial banks improved. During the first quarter of 1960 the banks' gross foreign exchange assets and liabilities went up by \$183 and 79 million respectively, their net foreign exchange liabilities being thus reduced by \$104 million. In mid-March 1960 the period for which Italians are allowed to retain foreign exchange before surrendering it to the authorities was lengthened from 15 to 180 days.

Another country whose reserves went up during the year was Austria, but in this case the rise came to an end in September 1959 at a level of \$735 million, after which the next six months saw a fall of \$84 million.

In Germany the monetary reserves declined by \$782 million during the first nine months of the year. This was the result of a capital outflow which included anticipated repayments of foreign debt and advance payments for arms imports. To a considerable extent the loss of foreign exchange by the Bundesbank was compensated by an increase in the commercial banks' net foreign exchange assets, which by the end of September 1959 were \$540 million higher than they had been at the beginning of the year. This happened because money-market rates in Germany at that time were lower than those obtaining in a number of other countries, and in addition the Bundesbank, in order to encourage the banks to build up their foreign exchange balances, was offering them swap facilities on terms which enabled them to reap the full benefit of the gap between domestic and foreign interest rates. At the beginning of the year these swap facilities were available at level rates, but gradually the price of forward exchange cover was increased in order to bring it back towards the market level, until in July these special transactions were suspended.

Following the increases in the official discount rate in September and October, the Bundesbank's gold and exchange reserves rose by \$570 million during the last quarter of the year, while the banks reduced their net foreign exchange assets by almost \$150 million. In addition, the banks' net DM liabilities to foreigners, which had declined by \$15 million in the first nine months of the year, rose by more than \$100 million in the last quarter. Following the rise in domestic interest rates, special measures were again taken by the Bundesbank, this time with the objects of encouraging the banks to repatriate as little as possible of their foreign exchange holdings and of discouraging an inflow of foreign funds. The special swap facilities were made

available again in September 1959, when the first increase in the discount rate took place; later, with effect from the beginning of 1960, maximum reserve requirements were reintroduced in respect of any increase in non-resident deposits with German banks above the end-of-November 1959 level. During the first quarter of 1960 the Bundesbank's gold and exchange reserves went up by a further \$130 million, while the foreign currency position of the banking system declined by \$89 million and its DM liabilities to foreigners by \$63 million. At the beginning of June 1960 the commercial banks were forbidden to pay interest on foreign deposits.

In the Netherlands, too, official measures were taken to prevent the external surplus from increasing the monetary reserves. The latter, in fact, declined by \$12 million during the year, the loss being more than accounted for by payment of the extra gold subscription of \$34 million to the International Monetary Fund in October. The commercial banks increased their net foreign exchange assets during each quarter of the year until at the end of 1959 they were 239 per cent. above the end-of-1958 level of \$124 million. Throughout 1959 money-market rates were kept down by the central bank in order to encourage the banks to employ short-term funds abroad, and the regulations governing such investments were liberalised, for trade and industry as well as for the banks. During the first quarter of 1960 the banks' net foreign assets went up by a further \$109 million simultaneously with a rise of \$43 million in the official reserves.

In Sweden the monetary reserves increased moderately during the first seven months of the year, after which they declined by \$60 million during the period August-October. Simultaneously with this latter development the commercial banks' net foreign exchange assets went up by \$61 million. In this case it would seem that what happened during these latter months was the result of the fact that the margins of fluctuation for the krona against the U.S. dollar were very small. This meant that the exchange risk on the employment of funds abroad at short term was negligible and also that situations arose where it was advantageous for banks in other European countries to buy dollars in Stockholm. In November 1959 the spread between the official buying and selling rates for the dollar was widened to 1½ per cent., and this measure gradually affected the volume of these transactions. Between the end of October 1959 and the end of January 1960, however, the central-bank reserves, partly for seasonal reasons, declined by a further \$83 million, while the commercial banks added \$42 million more to their foreign balances.

Switzerland's monetary reserves at the end of 1959 were virtually unchanged from what they had been a year earlier. This appearance of stability is deceptive. Increased long and short-term lending abroad caused the reserves, which had been declining gently for some months, to fall from \$1,993 million on 30th September to \$1,907 million on 30th November 1959. End-of-year repatriation of funds by the Swiss banks raised them by \$151 million to \$2,058 million on 31st December, while a month later the reversal

of this movement had carried them down again to \$1,939 million. At the end of the first quarter of 1960 the National Bank's gold and foreign exchange stood at \$1,871 million.

Belgium's reserves declined appreciably during 1959. \$28 million was paid to the International Monetary Fund in November 1959, representing the increase in Belgium's gold subscription; the remaining loss of \$91 million occurred partly in the first two months of the year — when the French devaluation and political disturbances in the Belgian Congo had an adverse effect — and partly in the last quarter, when rising interest rates in other countries began to attract funds from Belgium. In order to counteract this, the National Bank raised its rate of discount from 3¼ to 4 per cent. on 24th December 1959, with the result that during the first quarter of 1960 the net monetary reserves went up by \$77 million.

The United Kingdom's reserves fell by \$333 million during 1959. This movement was more than accounted for by non-recurrent capital payments. Altogether \$362 million was paid to the Fund during the year (\$200 million repurchase of currency and \$162 million extra gold subscription), while a sum of \$250 million which had been borrowed from the Export-Import Bank in October 1957 was repaid exactly two years later. In addition, the normal annual repayments totalling \$185 million were made to the U.S. and Canadian Governments at the end of the year. During the first quarter of 1960 the United Kingdom's reserves rose by \$45 million.

The United Kingdom's sterling liabilities to other countries went up by £145 million during 1959 to a total of £3,498 million (\$9,794 million), whereas in 1958 they had risen by only £80 million. Last year the independent members of the sterling area increased their balances by £191 million, while non-sterling countries reduced theirs by £39 million; in 1958, on the other hand, the former had declined by £86 million, while the latter (chiefly balances held by O.E.E.C. countries) had risen by £169 million. Many sterling-area countries added to their sterling balances in 1959; such figures as are available show that the principal gainers were Australia, Pakistan and South Africa. Smaller gains were made by New Zealand, India and Burma, while in Ceylon the central bank's sterling declined somewhat. The fact that this more or less general rise in sterling-area balances continued, against the normal seasonal pattern, during the second half of the year reflects the revival in world trade as well as the improvement in certain sterling-area commodity prices.

Outside the sterling area, the countries of western Europe ended 1959 with £21 million less sterling than at the beginning. During the first six months their balances fell from £408 million (\$1,142 million) to £303 million (\$848 million). This was due to two main factors. Firstly, the reported accounts of E.P.U. member countries, which had totalled £47 million at the end of 1958, were eliminated in the E.P.U. liquidation operations in January 1959. Secondly, German balances were considerably reduced by an advance debt repayment of £22½ million and by the conversion of £37½ million held at the Bank of England (and representing an advance deposit in respect of post-

war debts) into special U.K. Treasury bonds which are not included in the sterling balances. During the second half of the year, European holdings of sterling went up by £84 million to a total of £387 million (\$1,084 million), the increase being especially marked in the last three months. Elsewhere, Iraq's sterling balances were drawn down by £54 million in the second half of the year, when the country was no longer part of the sterling area. At the end of 1959 the central bank's reserves totalled \$297 million, of which 37 per cent. was in sterling, compared with 82 per cent. a year earlier.

Overseas sterling holdings by area and class of holder.

Holders	End of 1957			End of 1958			End of 1959		
	Official	Other	Total	Official	Other	Total	Official	Other	Total
in millions of £ sterling									
Sterling area . . .	2,126	482	2,608	1,993	526	2,519	2,165	538	2,703
Non-sterling-area countries	383	282	665	399	435	834	325	470	795
Total for all countries . .	2,509	764	3,273	2,392	961	3,353	2,490	1,008	3,498
Non-territorial organisations . .	645	—	645	623	—	623	705	—	705
Total holdings	3,154	764	3,918	3,015	961	3,976	3,195	1,008	4,203

Figures published in March 1960 show the development of sterling balances during the past two years split up between official and other holdings. In contrast to the fluctuations of official balances, non-official holdings both in the sterling area and outside it rose continuously until at the end of 1959 they accounted for about 29 per cent. of all balances held by foreign countries, compared with a little over 23 per cent. two years earlier. This increase was mainly in balances owned by residents of European countries, although it is noticeable that in 1958 non-official holdings of sterling inside the sterling area were rising during a period when these countries' official balances were declining.

For the International Monetary Fund the most important event which occurred during the period under review was the large increase in its resources which resulted from the general 50 per cent. rise in member countries' quotas. At the end of 1958 total quotas were \$9.2 milliard; by the end of March 1960, when nearly all the extra subscriptions had been paid in, they amounted to \$14 milliard. Of this sum \$10.2 milliard, or over 70 per cent., is in gold and convertible currencies, i.e. currencies of members who have accepted the obligations of Article VIII,* together with those European currencies which have been convertible for non-residents since December 1958. The ordinary transactions of the Fund in 1959 showed an

* At present, those countries which have accepted the obligations of Article VIII of the Fund's Articles of Agreement are: Canada, Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, Panama and the United States. Venezuela has not accepted Article VIII obligations, but it is not considered by the Fund to be taking advantage of the provisions of Article XIV.

excess of members' repayments over fresh drawings of \$428 million, due almost entirely to the French and British repayments already mentioned. As well as the contraction in outstanding drawings — the total of which at the end of 1959 was \$1,268 million — the amount of the Fund's commitments in the form of stand-by agreements fell from \$911 to 208 million, mainly because the United Kingdom did not renew its credit line of \$739 million (originally granted in December 1956) when it expired at the end of last year.

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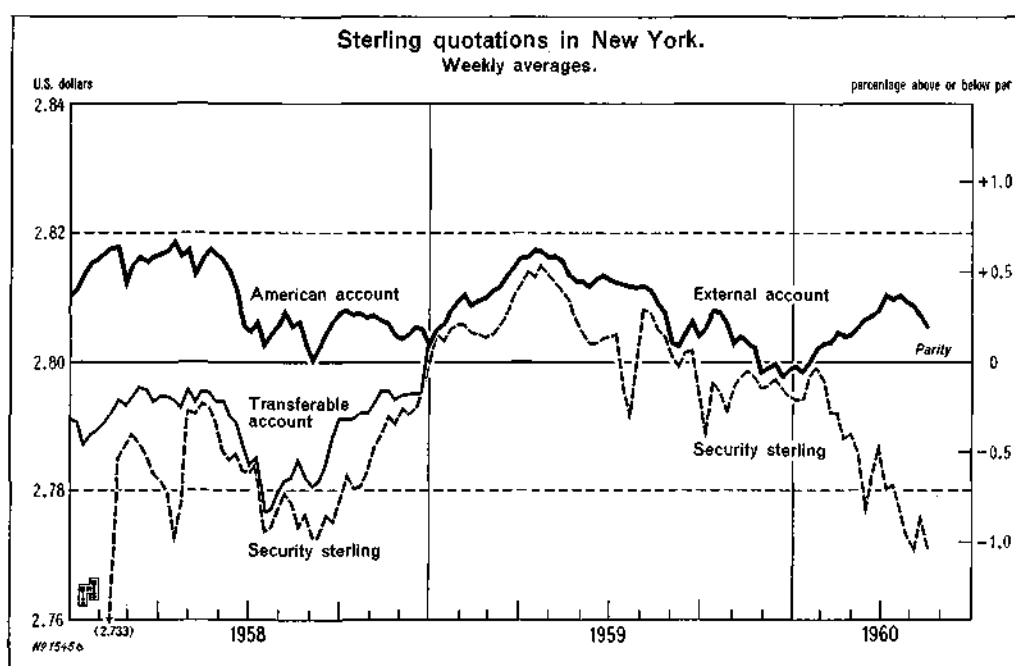
On the official foreign exchange markets the principal feature of the first year of convertibility for European currencies has been their strength against the U.S. dollar. In particular, four currencies (all of which have margins of about $\frac{3}{4}$ per cent. on either side of parity with the dollar) have been for long periods at their upper limits against the dollar. This is true of the Italian lira from February to November 1959, the French franc during the first half of last year, the Deutsche Mark since the official discount rate was raised in October 1959 and the Dutch florin for most of the period since January 1959. Moreover, when not at their upper limits, these currencies have often been very near to them and, except for the Deutsche Mark during the third quarter of last year, they have all been at a premium of more than $\frac{1}{2}$ per cent. on the dollar the whole time since convertibility was introduced. In addition to these four currencies, the pound sterling and the Swiss franc have been strong on the dollar, except the former for a short period at the end of 1959 and the very beginning of 1960. The Belgian franc has been less strong than any of the currencies so far mentioned. During the first quarter of 1959 it oscillated around par on the dollar, after which it was quoted between par and a premium of about 0.35 per cent. during the next five months. In the last part of the year, however, it was mostly at a slight discount on the dollar; this was replaced by a premium when the official discount rate was raised right at the end of the year. On the free market the Belgian financial franc, which had been at a very small premium on the dollar during the last few months of 1958, weakened appreciably in the first days of 1959 until it was at a discount of $4\frac{1}{2}$ per cent. on 9th January. Although the rate strengthened later in the month, the franc remained almost continuously at a discount of more than 1 per cent. until mid-July, falling to nearly $3\frac{1}{2}$ per cent. below par during May. Early in September 1959 the discount was reduced to less than 1 per cent. and from then on tended gradually to decline until it was replaced by a small premium again late in February 1960.

In Sweden the official buying and selling rates against the dollar were changed during 1959. When the European Monetary Agreement came into force at the end of 1958, most European countries fixed official dollar buying and selling rates which were roughly $\frac{3}{4}$ per cent. on either side of the parities. Portugal and Switzerland fixed rather wider limits, of just over 1 per cent. and $1\frac{3}{4}$ per cent. respectively, but in Sweden the margins of possible

fluctuation for the krona were set at only 0.03 per cent. on either side of par, the official dollar buying and selling rates being S.Kr. 5.1715 and S.Kr. 5.1750 respectively. This led to the situation described earlier on whereby Swedish banks, for their own account or for account of foreign customers, bought dollars from the central bank because of the favourable price and of the virtual absence of exchange risk on foreign short-term investments. In order to put an end to this situation, Sveriges Riksbank fixed new upper and lower limits against the dollar of S.Kr. 5.135 and S.Kr. 5.2125 in November 1959, i.e. about $\frac{3}{4}$ per cent. on either side of the parity of S.Kr. 5.17321.

When Spain became a member of the European Monetary Agreement in July 1959, the official buying and selling rates notified to the O.E.E.C. were fixed at Pesetas 59.55 and Pesetas 60.45 respectively, both exactly $\frac{3}{4}$ per cent. from the new dollar parity of Pesetas 60.

Although the United Kingdom's monetary reserves declined during the period under review, owing to debt repayments, the pound was for most of the time quoted above parity on the U.S. dollar in the official exchange market. Following the amalgamation of American and transferable sterling accounts at the end of 1958, external account sterling was quoted at about \$2.80½ in the first week of January 1959. By mid-April, after having risen steadily during the period of seasonal strength, the rate was \$2.81¾. So gradual was the decline from this peak that quotations did not come down again to the \$2.81 level until the third week of August. When a marked decline set in during October, it was because short-term interest rates were rising in a number of other countries. Sterling went below parity on 1st December and stayed mostly just below it until the Bank rate increase on 21st January 1960.



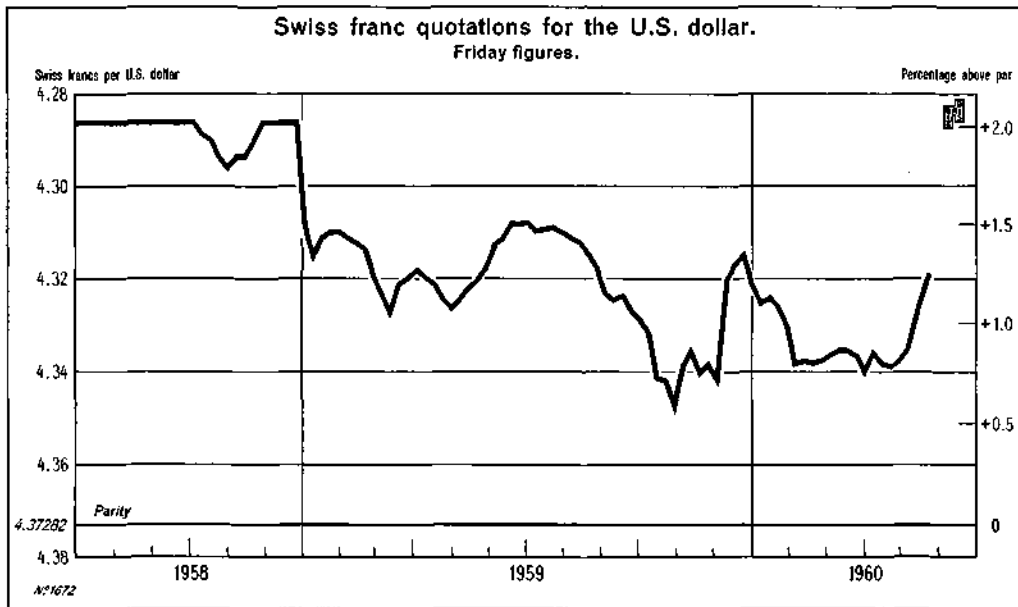
This caused an immediate strengthening to about $\$2.80\frac{1}{4}$, following which the usual seasonal factors helped to carry the rate to $\$2.81$ again by mid-April. The 1959 range of quotations for the pound against the dollar on the official market was about the same as in the previous year; within that range, however, as the market had been widened to include all current-account non-resident sterling, the movement of quotations was smoother, the turnover and the number of buyers and sellers being greater than they had been in the American account or transferable account markets. This is illustrated by the fact that the average monthly range of quotations was 0.49 U.S. cents in 1959, compared with 0.75 U.S. cents on the American account sterling market in 1958.

So far as quotations for security sterling are concerned, the graph shows clearly the narrower range within which they moved during 1959 compared with 1958, or, indeed, any previous year. In 1958 the low and high for the year had been $2.72\frac{1}{2}$ and $2.80\frac{1}{4}$ respectively; for 1959 the corresponding figures were $2.78\frac{1}{2}$ and $2.81\frac{5}{8}$ respectively, both of them inside the official buying and selling limits for external account sterling. Moreover, the average spread between the lowest and highest monthly quotations, which had been 1.88 U.S. cents in 1958, was 1.11 U.S. cents last year. The fall in security sterling rates since the beginning of 1960, after a year in which they had mostly been above or very near to the official parity, was perhaps partly due to profit-taking by non-resident investors after the steep 1959 rise in share prices on the London stock exchange. The extent of this fall was in any case modest, as quotations fell very little below the $\$2.78$ level.

Two technical changes occurred during the period under review in the London foreign exchange market. Firstly, at the beginning of May 1959 the London Foreign Exchange Brokers' Association, in agreement with the Committee of London Clearing Bankers, abolished the previous minimum margins between buying and selling quotations for foreign currencies on the exchange market. No new minima have been fixed and the margins are now expressed in decimals. The effect of this change, which came about because convertibility has made for greater competition between different centres in the exchange markets, has been to narrow the spreads between buying and selling rates quoted for currencies by the brokers to the banks. Secondly, in January 1960 the Bank of England ceased quoting official buying and selling rates for currencies other than the U.S. dollar, thus aligning itself on the practice in other European exchange markets. Limits between one European currency and another are now consequently determined entirely by international arbitrage dealings.

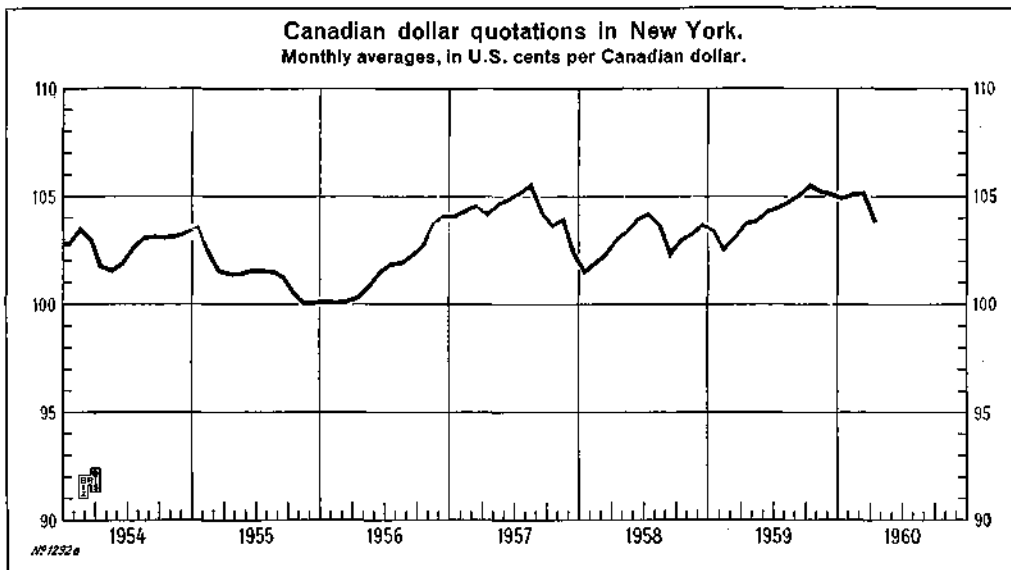
During 1959 the fluctuations of the U.S. dollar in Switzerland were greater than they had been for a number of years past. For a period of about four years until nearly the end of 1958 the dollar rate was almost continuously at the lower limit of Sw.fcs. 4.2850 maintained by the Swiss National Bank. Inside the European Payments Union, however, the rates at which settlements took place between Switzerland and the other members were based on the Swiss franc/dollar parity of Sw.fcs. 4.3728, with margins

of $\frac{3}{4}$ per cent. on either side being allowed in market dealings between the Swiss franc and other E.P.U. currencies. When the Union was liquidated and most of its members declared their currencies convertible, the difference of nearly 2 per cent. which existed in Switzerland between the dollar price and the price of E.P.U. currencies disappeared with the unification of the exchange markets. The Swiss National Bank adjusted the lower limit for the dollar from Sw.fcs. 4.2850 to Sw.fcs. 4.2950 (one reason for this was that the cost of transporting gold from New York to Berne has declined in recent years), but in fact the dollar rate at the beginning of 1959 adjusted itself further, to about Sw.fcs. 4.30-4.31. This was because the gold import point from London is rather above the lower limit of Sw.fcs. 4.2950 fixed by the Swiss National Bank.



Having fallen to a lower premium on the dollar as soon as general European convertibility was established, the franc then fluctuated considerably against the dollar during 1959, particularly during the latter half of the year. Beginning in July, quotations moved from Sw.fcs. 4.31 to nearly Sw.fcs. 4.35 in early November, the Swiss franc's premium over parity falling from $1\frac{1}{2}$ to about $\frac{1}{2}$ per cent. This change was due to the fact that short-term funds were attracted from Switzerland to other centres by rising interest rates and to the greatly increased volume of long-term foreign borrowing in Switzerland. The movement in the exchange rate being the result of a capital outflow, the National Bank decided to intervene and sell dollars on the market, which it did in substantial amounts, particularly in October and early November 1959. During the last weeks of the year the position on the exchange market was completely reversed, with the franc being heavily demanded. This was due to temporary repatriation of short-term funds by the Swiss banks. Early in January a good proportion of the money brought back was reinvested abroad and the exchange rate declined again.

During the period under review the value of the Canadian dollar on the exchange markets continued to be determined by the same broad influences as in previous years. Thus, despite the further increase in the country's current balance-of-payments deficit to a new record level of Can.\$1.5 milliard, the demand for Canadian dollars on investment account was such that the U.S. dollar continued to be quoted at a discount on the Canadian dollar. From the low point for the year of just under 102 U.S. cents in mid-February, the Canadian dollar appreciated more or less continuously during the following six months until by mid-August the premium on the U.S. dollar was over 5 per cent., where it remained almost uninterruptedly until the last days of March 1960. Early in April 1960 the rate began to decline, and by the third week of May the premium had been reduced to 1½ per cent.



Although the inflow of long-term capital, both for direct investment and on account of security transactions, continued at a high level, most of the increase in the deficit on current external account was financed by changes in short-term assets and liabilities. Thus net receipts of long-term capital from abroad were Can.\$1,041 million in 1959, compared with Can.\$1,012 million the year before. In the short-term sector there was a big rise in the capital inflow, from Can.\$73 to 419 million. The latter figure was composed mainly of two items. Firstly, the country's official gold and foreign exchange reserves were run down by Can.\$70 million, after having increased by Can.\$109 million the year before. Secondly, and more important, the remainder item in the balance of payments, "Other capital movements", showed an inflow of Can.\$336 million, compared with only Can.\$76 million in 1958. The change in this item, which must have strengthened the rate of exchange for the Canadian dollar, reflects the gap which opened up in the first half of 1959 between Canadian and U.S. short-term interest rates. At the beginning of 1959 the Treasury bill rate in Canada had been 3.25 per cent.; in mid-

August it reached and passed the 6 per cent. level. During the same period comparable rates in New York were rising much more gently, from around 2.7 per cent. to 3.2 per cent. In the last four months of the year, during which period the inflow of short-term capital was practically nil, the Canadian Treasury bill rate came back to around 5 per cent., while in New York rates rose above $4\frac{1}{2}$ per cent.

Following deficits of Can.\$609 million in 1958-59 and Can.\$406 million in 1959-60, the budget estimates presented to the Canadian Parliament at the end of March 1960 provided for a small surplus of Can.\$12 million. In his budget speech the Finance Minister, Mr. Fleming, advised Canadians to save more so as to reduce the country's reliance on foreign capital. In most countries it might be expected that the elimination of a substantial budget deficit would, other things being equal, tend to strengthen the exchange rate. In recent years, however, Canada has depended to an abnormal extent on foreign borrowing to meet domestic expenditure. It may be, therefore, that the principal effect of a balanced budget in this case will be, by substantially lessening the total pressure of demand on the Canadian capital market and thus reducing the need for raising money abroad, to cause some of the premium on the U.S. dollar to run off. Together with the decline in Canadian Treasury bill rates below the U.S. Treasury bill rates early in May 1960, which brought with it a tendency for funds to flow from Canada to the United States, this would seem to be why the Canadian dollar has declined some $3\frac{1}{2}$ per cent. in value since the end of March 1960.

Convertibility of European currencies has not only broadened the spot exchange markets by unifying them but has had the same effect in the forward markets. It would follow, therefore, that the rates quoted in these markets will now tend, to a greater degree than in the past, provided that no strong seasonal or speculative factors are operating, to reflect the differences in short-term money rates in different financial centres. But to determine whether in fact they do so or not is far from easy. In a pair of highly-developed financial markets, such as New York and London, there are at any time a number of short-term investments available the effective yields on which are different. No single comparison — such as that between U.S. and U.K. Treasury bill rates — is safe as a basis for a general statement as to whether, after taking account of forward exchange cover, money can be employed more profitably in one place than in another. Moreover, if such a calculation is made and it appears that more could be earned in, say, London than New York, it may be the case that no money is in fact moving from the latter to the former. For one thing, an appreciable difference in yield, after taking account of forward exchange cover, is necessary if funds are to be attracted from one centre to another. This is because a lender, when he obtains such cover, automatically loses liquidity, since his swap is made for a fixed period and he has no means of knowing whether or at what price he could reverse it during its life. In practice, an advantage of about $\frac{1}{2}$ per cent. per annum on a swap-covered basis is the point at which short-

term funds begin to move. Another limiting factor is the credit risk involved; most lenders have certain fixed limits on the amount of money which they are prepared to put into foreign short-term investments. For these reasons there may be centres where domestic yields remain persistently lower than those obtainable abroad on a swap-covered basis. Finally, it is still true that exchange controls in some countries limit international movements of money, especially outflows of resident funds.

Subject to these qualifications, a few comments may be made on the movements of forward exchange rates during 1959 and early 1960. In Switzerland, Germany and the Netherlands forward premiums against the dollar tended to grow during the first nine months of last year as short-term rates in New York rose relative to those in the countries mentioned. A similar movement at a lower level, from a forward discount to a forward premium, took place, for the same reasons, between the Belgian franc, the pound sterling and the French franc, on the one hand, and the U.S. dollar, on the other. When European interest rates rose late in 1959 the forward premiums of the first group of currencies against the dollar diminished, and in the case of Germany disappeared altogether, while the second group of currencies were again quoted at a discount on the dollar in the forward market. So far as forward quotations for the Canadian dollar in terms of U.S. dollars are concerned, it may be significant that during the first half of 1959, when a substantial inflow of short-term funds from the United States to Canada occurred, the forward discount on the Canadian dollar was markedly less than the difference between the Treasury bill rates in the two countries. On a swap-covered basis, the yield of Canadian Treasury bills during these months was anything between 0.25 and 0.80 per cent. per annum greater than that of U.S. Treasury bills. Since late in 1959, however, it has been the other way round for most of the time.

The most important measures of exchange rate policy taken in Europe during the period under review were the devaluations of the Spanish peseta and the Icelandic krona, in July 1959 and February 1960 respectively. In both countries this step was accompanied by unification of the exchange rate structure and formed part of a general programme of economic stabilisation. In Turkey the number of different rates was reduced in August 1959.

In Spain a new par value of Pesetas 60 = U.S.\$1, corresponding to a gold value for the peseta of 0.0148112 grammes, was announced simultaneously by the Spanish Government and the International Monetary Fund on 18th July 1959. It is not possible to say by just how much the currency was thereby devalued, as until that date a system of multiple rates had been in force. The effective range of exchange rates was, on the buying side, from Pesetas 31 to Pesetas 50 per dollar and, on the selling side, from Pesetas 42.27 to Pesetas 126.27 per dollar. The new parity applies to all exchange transactions. Simultaneously with the devaluation, Spain joined the O.E.E.C. and began to participate in the European Monetary Agreement. Nearly 50 per cent. of imports from countries with convertible currencies were liberalised,

and it was understood that in due course Spain would reach the 90 per cent. liberalisation level at present laid down by the O.E.E.C. Code of Liberalisation. In addition, a market was opened for dealings in U.S. and Canadian dollars, as well as in those European currencies which are now convertible on non-resident account, and the restrictions on foreign investment in Spain were relaxed.

To assist the smooth working of this programme — and, in particular, to ensure that the removal of import quotas was not deprived of its full effect through a shortage of foreign exchange — Spain was granted a substantial volume of financial assistance, totalling \$418 million, from various outside sources. In the first place, an immediate drawing of \$50 million was made on the Fund and a stand-by arrangement concluded for a further \$25 million. Secondly, \$130 million was obtained from the U.S. Government in various forms. Thirdly, \$100 million was received from the O.E.E.C. in the form of a credit from the European Fund; of this, \$75 million was made available in August 1959 and the remainder in February 1960. Lastly, a consortium of U.S. commercial banks gave credits totalling \$68 million and \$45 million's worth of bilateral debts owed by Spain to various European countries were consolidated.

In Iceland an economic stabilisation programme was introduced in February 1960. In a speech on 1st March the Governor of the National Bank of Iceland said that it was the disparity between prices in Iceland and elsewhere that had been "the major cause of the difficulties with which Iceland has had to cope in economic affairs during the past few years". The new par value adopted and declared by Iceland to the International Monetary Fund is I.Kr. 38 = U.S.\$1 (corresponding to a gold value for the krona of 0.0233861 grammes). The previous parity, in effect since March 1950, had been I.Kr. 16.2857 per dollar. A simple comparison of the two par values, however, overstates the extent of the recent devaluation, since multiple exchange rates — varying from I.Kr. 16.26 to I.Kr. 29.27 on the export side and from I.Kr. 16.32 to I.Kr. 32.64 on the import side — had previously been in force. So far as external assistance is concerned, out of Iceland's (recently increased) Fund quota of \$11.25 million, an immediate drawing has been made of \$2.8 million, while a further \$5.6 million has been made available in the form of a stand-by credit. From the O.E.E.C. Iceland has received a credit of \$12 million out of the resources of the European Fund; of this, \$7 million was made immediately available and the remainder, subject to a review by the O.E.E.C. of the progress made by the new economic programme, will be granted some time between 1st August and 31st December 1960.

In Turkey the number of export rates of exchange was reduced from three to two in August 1959. A rate of T£5.60 = U.S.\$1 now applies to exports of tobacco and opium and one of T£9 = U.S.\$1 to all other exports. All imports, together with invisible and capital transactions, are carried out, as before, at the rate of T£9.02 = U.S.\$1. A further step has thus been taken towards unifying the rate structure.

Elsewhere in western Europe the relaxation of exchange restrictions has continued, although most of the measures taken in this field were of minor importance compared with the general advance to non-resident convertibility at the end of 1958.

In Greece the adoption of non-resident convertibility on current account was announced on 23rd May 1959. Sight accounts in drachmae — called external accounts — may now be opened for foreigners, either with the proceeds of the sale of convertible foreign exchange, or with the drachma equivalent of claims by foreigners on Greek residents eligible for settlement in convertible currencies or with transfers from another external account. The accounts may be debited for the purchase of foreign exchange, for all payments from non-residents to residents and for transfers to other external accounts.

In the United Kingdom the sterling accounts of residents of Iraq were designated as external accounts as from 23rd June 1959, the date on which Iraq ceased to be a member of the sterling area. As from 1st November last year the amount of foreign currency automatically available to U.K. residents for travel outside the scheduled territories was increased from £100 to £250 per annum. In March 1960 the maximum period for which usance credits might be granted to non-residents was extended from 120 to 180 days and simultaneously banks were authorised freely to give personal loans and overdrafts to non-residents for any amount up to £10,000 and to give overnight accommodation to their non-resident banking correspondents. The prohibition introduced during the exchange crisis of September 1957 on the granting by banks of refinance credits to non-residents remains in force.

In France a new monetary unit, called the new franc, was introduced on 1st January 1960. One new franc is equal to one hundred old francs and its gold content is 0.18 grammes. In July 1959 a formal change was made in the system of non-resident accounts. Until that date there had been three categories of non-resident account, free franc accounts, transferable franc accounts and bilateral franc accounts. Since the introduction of convertibility in December 1958 the first two categories of account had been different in name only, and this was recognised by amalgamating them into a new type of account, called convertible franc account, which is available to all non-residents except those who, under the terms of payments agreements between their countries and France, have to have bilateral accounts. The number of countries with which France has such agreements has been reduced from eighteen to seven since *non-resident convertibility* was introduced. Also in July 1959 the periods allowed for making payments for imports and for collecting receipts from exports were extended from 90 to 180 days and simultaneously the time-limit for forward exchange dealings in the franc was similarly extended, so that it is now the same as that allowed for forward transactions in foreign currencies. In January 1960 French residents were permitted to use the forward market for invisible transactions related to imports and exports. On 29th October 1959 the foreign currency travel allowance for French residents was raised from NFF 500 to NFF 1,500 per annum.

In Italy the main event in this field has been the declaration, for the first time, of a parity for the lira to the International Monetary Fund on 30th March 1960. The parity is Lit. 625 = U.S.\$1, i.e. the middle rate for the dollar since October 1949, and the gold content of the lira is 0.00142187 grammes. A little earlier, at the end of January 1960, the Bank of Italy had been authorised to show its gold holdings at this value, which equals Lit. 703.3 per gramme of gold, instead of at the rate of Lit. 21.4 per gramme which had been used since 1936. In August 1959 Italian companies were given permission freely to take up participations in foreign companies and to buy foreign shares, provided that such investments are in the same line of business as that of the investing firm and that they will facilitate the firm's foreign activities.

In the Netherlands the same amalgamation of non-resident accounts as occurred in France was carried out in July 1959. The previous convertible and transferable accounts were amalgamated and foreign countries are now from this point of view divided into two groups only, the convertible florin area and the group of bilateral countries. The latter now consists of Indonesia and the U.S.S.R. Also in July 1959 changes were made in the regulations governing capital transactions between the Netherlands and other countries. The main effect has been to allow all such transactions by non-residents, except those in respect of securities, to take place on the official exchange markets in the same way as for current payments. Non-residents' K accounts are therefore now used only for purchases and sales of securities. Moreover, non-residents are now permitted to buy with their K-account balances any securities quoted on a Netherlands stock exchange. Certain restrictions on this freedom are applied to residents of Indonesia (unless they are of Dutch nationality) and of the Chinese-Soviet group of countries. So far as security transactions by Netherlands residents are concerned, the latter are now allowed to buy, with balances on security reinvestment accounts, all securities quoted on foreign stock exchanges regardless of what currency they are expressed in, and they may also purchase in this way Netherlands securities circulating abroad. Since 8th April 1960 Netherlands tourists and business men have been authorised to take out of the country Fl. 3,000 in foreign currency, 50 per cent. more than was previously allowed, for journeys of up to two weeks and, in addition, the counterpart of Fl. 150 per day may be taken for each day in excess of two weeks up to a maximum of ninety days in all.

In Austria the balances held on blocked schilling accounts on 30th June 1959 by residents of countries with which payments are settled in convertible currencies were made transferable to free schilling accounts in July 1959. At the same time, outstanding blocked balances owned by residents of Egypt, Greece, Spain and Turkey became eligible for repatriation within the terms of the bilateral payments agreements between Austria and these countries. Similar measures had been taken in January 1959 in respect of balances outstanding at the end of 1958. This second instalment of unblocking was followed, in October 1959, by the virtual abolition of blocked accounts for residents of countries with convertible currencies (plus residents of

Greece and Turkey). All payments of a capital nature received since then by such persons from Austrian residents may be freely transferred abroad, except for the proceeds of the sale of foreign securities and of Austrian securities denominated in foreign currencies. This means that there is now practically complete convertibility of the schilling for non-residents. In June 1959 the foreign travel allowance for Austrian residents was raised by 40 per cent. to Sch. 10,000 per annum.

In Finland 1959 was another satisfactory year from the external point of view, and in the course of it some further changes were made in the system of non-resident accounts. As from 1st July 1959 the number of types of current account for non-residents was reduced to two, convertible accounts and bilateral accounts. The latter are for such payments between Finland and other countries as are still subject to bilateral arrangements, while the former (which may be held either in markkas or in foreign currencies) may be used for all other payments between Finland and the rest of the world. Blocked markka accounts, on which are placed all sums not eligible for credit to either a convertible or a bilateral account, still exist, but certain steps have been taken towards unblocking them. In December 1959 it was decided that all sums of up to FM 1 million standing on these accounts since September 1939 could be immediately transferred to convertible, or, if appropriate, bilateral accounts. In January 1960 permission was given for the transfer of all sums left on blocked accounts to special so-called transfer accounts, from which they may be repatriated at the rate of 10 per cent. per annum. In addition, balances on these accounts are freely transferable between all residents of countries with convertible currencies, whereas all blocked-account balances were strictly bilateral. Thus, for the first time since the war, non-resident owners of non-current balances in Finland can repatriate them, either directly or by selling them to another non-resident.

Other exchange measures taken in Finland during the period under review included the following: (i) in May 1959, and again in January 1960, power to authorise a number of foreign transactions was transferred from the Bank of Finland to the authorised banks; (ii) since 2nd November 1959 Finnish importers have been allowed to take normal trade credits in respect of a large number of imported goods, payment for which had, since December 1957, had to be made in advance of customs clearance; (iii) in January 1960 all restrictions on the import of Finnish and foreign means of payment and securities were removed and the restrictions on the export of foreign currencies by travellers relaxed.

In Denmark certain changes were made during the period under review in the system of non-resident accounts. The two types of current non-resident account — convertible and bilateral accounts — may now be opened for non-resident shipping companies and for persons residing abroad who were or are Danish nationals. Previously these accounts were only available to non-resident banks and insurance companies. Moreover, all other non-residents may now open such accounts, provided that balances in excess of D.Kr. 75,000 are

transferred abroad quarterly. The so-called krone accounts IV, which were capital accounts, have been abolished and most of them turned into convertible or bilateral accounts. At the same time as these changes were made, in August and September 1959, the regulations governing the repatriation of capital by non-residents were relaxed. The transfer of the proceeds of the sale of direct investments is freely allowed, as is also the remittance of inheritances. All other capital assets are transferable at a rate not exceeding D.Kr. 75,000 per annum.

Elsewhere in the world the principal exchange rate changes during 1959 were the devaluations of the Indonesian and Moroccan currencies.

In Indonesia there was a monetary reform and a further depreciation of the currency during the period under review. On 24th August 1959 it was announced that all 500 and 1,000 rupiah notes were being reduced in worth to 10 per cent. of their face value and also that 90 per cent. of all bank deposits over 25,000 rupiahs were being frozen and transformed into government-sponsored debentures. On 25th August, a new basic rate for the currency of Rupiahs 45 per dollar was substituted for the previous one of Rupiahs 11.40, and at the same time a number of other changes were made. Previously, effective buying rates had ranged from Rupiahs 29.91 to 37.848 per dollar and selling rates from Rupiahs 37.848 to 104.082 per dollar. The new rate of Rupiahs 45 per dollar applies to all foreign exchange receipts, although a tax of 20 per cent. levied on all exports and most invisibles means that the effective principal buying rate is Rupiahs 36 per dollar. On the import side, the division of goods into six categories has been retained, all but the first being subject to surcharges which range from 25 to 200 per cent. of the new basic rate. The effective range of selling rates is therefore Rupiahs 45-135 per dollar.

In Morocco the franc was not devalued in December 1958 at the same time as the French franc. However, a 10 per cent. exchange tax was introduced at that time on all transfers to France and to other countries of the franc area. This tax was abolished, together with a number of restrictions on current external payments, in mid-October 1959, when a devaluation was carried out and it was announced that a new monetary unit would be introduced. It is the dirham, the gold value of which has been declared to the International Monetary Fund as 0.1756097 grammes. The dollar parity is Dirhams 5.06049. Compared with the value of the old Moroccan franc, this represents a devaluation of 17 per cent. One new French franc equals 1.025 dirhams.

In Latin America the period under review saw a further fall in the external values of some currencies, while others are now showing signs of greater stability than in the past. At the end of 1959 an exchange reform was introduced in Uruguay on the lines of that carried out in Argentina a year earlier. Instead of the previous multiple rate system, under which rates had ranged from Pesos 2.81 to Pesos 17.18 per dollar, there is now a single free-market rate, which early in May 1960 stood at Pesos 11.42 per dollar,

Latin America: Exchange rates.

Countries	1958		1959		1960	
	Bottom rate	Top rate	Bottom rate	Top rate	Bottom rate	Top rate
	March figures, in units of national currency per dollar					
Argentina . . .	18.00	37.85	68.05		82.75	
Brazil	37.06	105.00	60.00	141.50	76.00	191.50
Chile	740.00	915.00	1,053.00		1,053	
Colombia . . .	6.10	6.96	6.10	6.05	6.10	6.75
Paraguay . . .	111.40		122.00		122.00	
Peru	22.50	23.00	27.40	27.75	27.60	27.80
Uruguay . . .	1.519	5.75	1.519	8.45	11.38	

Note: Where two figures are given, the bottom one is the cheapest buying rate and the top one the most expensive selling rate. Where only one figure is given, it is the selling rate.

for all authorised transactions. All imports have been freed from direct control by licensing, although the purchase of certain commodities is still temporarily prohibited. As in Argentina, however, the unification of exchange rates is more apparent than real, since surcharges of up to 300 per cent. may be levied on imports of non-essentials and luxuries, as well as on all imports which compete with domestic production; in addition, taxes of between 5 and 50 per cent. may be put on the proceeds of the export of a number of commodities. Elsewhere there have been no important changes in the exchange systems in force; rates have depreciated in Argentina and Brazil and have been stable in Chile, Paraguay and Peru, while in Colombia the free rate for the dollar improved substantially between March 1959 and March 1960.

* * *

The period of well over a year that has now elapsed since most of the western European countries introduced external convertibility for their currencies has provided confirmation of the sound basis from which they took the step, has shown the advantages to be derived from taking it and has exposed more plainly than ever before, now that their monetary *raison d'être* is gone, many of the remaining restrictions on international trade and payments for what they are — protective devices no longer relevant to balance-of-payments problems that have ceased to exist.

Firstly, western Europe increased its gold and short-term dollar holdings by a further \$1.6 milliard during 1959, as well as transferring to the International Monetary Fund by way of gold subscriptions and currency repurchases a sum of \$0.9 milliard. Secondly, the more comfortable state of European reserves (which was itself one of the factors that made convertibility possible) has, together with the unification of exchange rates, helped to broaden the exchange markets. Many currency transactions that were prohibited when reserves were short are now allowed, and even encouraged, by the authorities. Thirdly, with the elimination of the previous distinction between "hard" and "soft" currencies the sole monetary justification for discriminatory restrictions on current

external payments has vanished. Now that the principle of international competition has been so largely accepted, it is more and more anomalous that certain sectors still receive special favours of this kind in addition to normal tariff protection and, given the fact that many of them are obliged to meet increasingly stiff competition in third markets, it is hard to see how they are helped in doing so by hothouse conditions on the home market. In this connection it is significant that since December 1958 a number of European countries have appreciably reduced what remains of their discrimination against current dollar payments.

All these are valuable gains which further reinforce the strong external position in which the European countries have for some time now found themselves. The exact strength of their position is not something that can be nicely determined, either by comparing the present level of their monetary reserves with the level of, say, ten years ago or by relating their reserves to the level of their external payments at different dates or in any other simple way. Helpful as such calculations may sometimes be, they cannot take into account the fact that over a number of years, and this applies especially to a period of recovery such as that which began with the introduction of the Marshall Plan, the whole context in which reserves have to be looked at may change. The International Monetary Fund's study "International Reserves and Liquidity", published in 1958, pointed out that "imports of goods and services are ultimately paid for with exports of goods and services and any difference between imports and exports may be balanced by a movement of long-term or short-term capital. If a balance still remains, it is then paid with the country's own reserves or other cash holdings." In other words, a country's need for reserves must be seen in the light of the relation between its total receipts and its total payments on external account. During the years 1947-51 the average monthly imports of all O.E.E.C. countries combined amounted to \$2.2 milliard, while the annual average deficit on the current account of their combined balance of payments was \$3.3 milliard. During the period 1952-58 the corresponding figure for imports was \$3.2 milliard, while for the balance of payments it was a surplus of \$1.7 milliard. Quite apart, therefore, from the change from deficit to surplus between these periods, there was also a 50 per cent. narrowing of the average annual gap between current debits and current credits and a simultaneous 50 per cent. rise in the monthly value of imports. Crude as they are, these figures point to the likelihood that a given volume of monetary reserves can support a larger volume of world trade today than was possible in the early post-war years. Other considerations, too, point in the same direction. For one thing, the reduction of exchange controls, though it has centred primarily on current transactions, has certainly increased the freedom and the willingness of capital, particularly since convertibility, to move in accordance with relative rewards and so to help in balancing international payments. Furthermore, with all the principal currencies freely convertible for non-residents, the possibilities for countries to offset unfavourable positions in one direction with surpluses in another are almost unlimited.

These factors — better balance on current account, greater mobility of capital and the existence of official exchange markets where the leading currencies are freely convertible for non-residents — have completely changed conditions in Europe from what they were after the war, and in such a way as to reduce the job to be done by reserves. Moreover, the present level of European countries' reserves, coupled with the recent reinforcement of the International Monetary Fund's resources, means that the problems of reconciling the internal and external aspects of their economic policies will no longer present themselves in the same form as during the post-war period. Indeed, to the extent that such problems can be said to exist today, they arise most frequently from the need to ensure that the present foreign surpluses in some countries do not inflate internal liquidity at a rate which could endanger price stability.

Official currency values — Middle of May 1960.

Country	Currency	Grammes of fine gold	1 U.S. dollar	Remarks
Europe				
Albania	Lek	—	50.—	Rate fixed on 11th July 1947.
Austria	Schilling	.0341796	26.—	IMF parity since 4th May 1953.
Belgium	Franc	.0177734	50.—	IMF parity since 22nd Sept. 1949.
Bulgaria	Lev	.130687	6.80	Rate fixed since 12th May 1952.
Czechoslovakia	Koruna	.123426	7.20	Rate fixed on 1st June 1953.
Denmark	Krone	.128660	6.90714	IMF parity since 18th Sept. 1949.
Finland	Markka	.00277710	320.—	IMF parity since 15th Sept. 1957.
France	Franc (NF)	.180000	4.93706	IMF parity since 1st January 1960.
Germany (eastern)	D.Mark	.399902	2.222	Rate fixed on 29th October 1953.
Germany (Fed. Rep.)	D.Mark	.211588	4.20	IMF parity since 30th Jan. 1953.
Greece	Drachma	—	30.—	Official rate since 1st May 1954.
Hungary	Forint	.07570023	11.74	Official rate since 1st Aug. 1946.
Iceland	Króna	.0233861	38.—	IMF parity since 22nd Feb. 1960.
Ireland	Pound	2.48828	.357143	IMF parity since 14th May 1958.
Italy	Lira	.00142187	625.—	IMF parity since 31st March 1960.
Luxemburg	Franc	.0177734	50.—	IMF parity since 22nd Sept. 1949.
Netherlands	Florin	.293861	3.80	IMF parity since 21st Sept. 1949.
Norway	Krone	.124414	7.14286	IMF parity since 18th Sept. 1949.
Poland	Zloty	.222168	4.—	Rate fixed on 30th October 1950.
Portugal	Escudo	—	28.75	Rate fixed on 21st Sept. 1949.
Rumania	Leu	.148112	6.—	Rate fixed on 1st February 1954.
Spain	Peseta	.0148112	60.—	IMF parity since 17th July 1959.
Sweden	Krona	.171789	5.17321	IMF parity since 5th Nov. 1951.
Switzerland	Franc	.203226	4.37282	Official parity.
Turkey	Lira	.317382	2.80	IMF parity since 19th June 1947.
United Kingdom	Pound	2.48828	.357143	IMF parity since 18th Sept. 1949.
Yugoslavia	Dinar	.00286224	300.—	IMF parity since 1st January 1952.
U.S.S.R.	Rouble	.222168	4.—	Rate fixed on 1st March 1950.
North America				
Canada	Dollar	—	0.9773	Market rate in mid-May 1960.
Mexico	Peso	.0710937	12.50	IMF parity since 19th April 1954.
United States	Dollar	.888671	1.—	IMF parity since 18th Dec. 1946.
Central America				
Costa Rica	Colón	.158267	5.615	IMF parity since 18th Dec. 1946.
Cuba	Peso	.888671	1.—	IMF parity since 18th Dec. 1946.
Dominican Republic	Peso	.888671	1.—	IMF parity since 23rd Apr. 1948.
El Salvador	Colón	.355468	2.50	IMF parity since 18th Dec. 1946.
Guatemala	Quetzal	.888671	1.—	IMF parity since 18th Dec. 1946.
Haiti	Gourde	.177734	5.—	IMF parity since 9th Apr. 1954.
Honduras	Lempira	.444335	2.—	IMF parity since 18th Dec. 1946.
Nicaragua	Córdoba	.126953	7.—	IMF parity since 1st July 1955.
Panama	Balboa	.888671	1.—	IMF parity since 18th Dec. 1946.
South America				
Argentina	Peso	—	82.95	Selling rate on 9th May 1960.
Bolivia	Boliviano	—	11,885.—	Official selling rate since Jan. 1959.
Brazil	Cruzeiro	.0480363	18.50	IMF parity since 14th July 1948.
Chile	Escudo	—	1.053	Selling rate since 1st Jan. 1960.
Colombia	Peso	.455733	1.94998	IMF parity since 17th Dec. 1948.
Ecuador	Suere	.0592447	15.—	IMF parity since 1st Dec. 1950.

Official currency values — Middle of May 1960.

Country	Currency	Grammes of fine gold	1 U.S. dollar	Remarks
South America (continued)				
Paraguay	Guarani	—	122.—	Selling rate.
Peru	Sol	—	27.70	Certificate rate on 31st March 1960.
Uruguay	Peso	—	11.42	Selling rate on 5th May 1960.
Venezuela	Bolivar	.265275	3.35	IMF parity since 18th April 1947.
Africa				
Egypt	Pound	2.55187	.348242	IMF parity since 18th Sept. 1949.
Ethiopia	Dollar	.357690	2.48447	IMF parity since 18th Dec. 1946.
Federation of Rhodesia and Nyasaland	Pound	2.48828	.357143	IMF parity since 18th Sept. 1949.
Ghana	Pound	2.48828	.357143	IMF parity since 5th Nov. 1958.
Liberia	Dollar	.888671	1.—	Parity with the U.S. dollar since 1st January 1944.
Libya	Pound	2.48828	.357143	IMF parity since 12th August 1959.
Morocco	Dirham	.175610	5.06049	IMF parity since 16th October 1959.
Sudan	Pound	2.55187	.348242	IMF parity since 23rd July 1958.
Tunisia	Dinar	2.115880	.420	No IMF parity fixed.
Union of South Africa	Pound	2.48828	.357143	IMF parity since 18th Sept. 1949.
Asia				
Afghanistan	Afghani	—	20.—	Official basic rate.
Burma	Kyat	.186621	4.7619	IMF parity since 7th August 1953.
Cambodia	Real	.0253905	35.—	Official parity since 28th March 1956.
Ceylon	Rupee	.186621	4.7619	IMF parity since 16th January 1952.
China	Yuan	—	2.46	Official rate since 1st March 1955.
India	Rupee	.186621	4.7619	IMF parity since 22nd Sept. 1949.
Indonesia	Rupiah	—	45.—	Basic rate since 25th August 1959.
Iran	Rial	.0117316	75.75	IMF parity since 22nd May 1957.
Iraq	Dinar	2.48828	.357143	IMF parity since 20th Sept. 1949.
Israel	Pound	.493706	1.80	IMF parity since 13th March 1957.
Japan	Yen	.00246853	360.—	IMF parity since 11th May 1953.
Jordan	Dinar	2.48828	.357143	IMF parity since 2nd Oct. 1953.
Korea (North)	Won	—	1.20	Calculated over parity with Rouble (Won 1 = Roubles 3.33).
Korea (South)	Hwan	—	650.—	Official rate since 22nd Feb. 1960.
Laos	Kip	—	90.—	Official parity since 6th Oct. 1958.
Lebanon	Pound	.405512	2.19148	IMF parity since 29th July 1947.
Malaya	Dollar	.290299	3.061	Official parity since 19th Sept. 1949.
Pakistan	Rupee	.186621	4.7619	IMF parity since 31st July 1955.
Philippines	Peso	.444335	2.—	IMF parity since 18th Dec. 1946.
Saudi Arabia	Riyal	.197482	4.50	IMF parity since 8th January 1960.
Syria	Pound	.405512	2.19148	IMF parity since 29th July 1947.
Taiwan	Dollar	—	36.23	Basic middle rate since 21st Nov. 1958.
Thailand	Baht	.0444335	20.—	Official parity since 18th March 1955.
Vietnam (North)	Dong	—	2.94	Calculated over parity with Rouble (Dong 1 = Roubles 1.36).
Vietnam (South)	Piastre	—	35.—	Official rate since 10th May 1953.
Australasia				
Australia	Pound	1.99062	.446429	IMF parity since 18th Sept. 1949.
New Zealand	Pound	2.48828	.357143	Official parity since 18th Sept. 1949.

VII. The European Monetary Agreement.

The coming into force of the European Monetary Agreement on 27th December 1958 under the auspices of the Organisation for European Economic Co-operation was described in the Twenty-ninth Annual Report of the Bank. The Agreement has two principal features: the European Fund and the Multilateral System of Settlements.

The System of Settlements was subject to renewal after one year and this has now taken place. The renewal was the occasion for an extensive review of the working of the Agreement by the Board of Management in the autumn of 1959 — a review which covered both the System of Settlements and the European Fund. There resulted a number of amendments to the Agreement which, together with other changes introduced in the course of 1959, are described in the first part of this chapter; the second part describes the operations carried out up to March 1960, and in the third part an account is given of the management of the European Fund and the System of Settlements.

1. Changes in the Agreement.

Spain acceded to the European Monetary Agreement in July 1959; its contribution to the European Fund was fixed at \$7.5 million,* but this is a deferred contribution, not to be called until all non-deferred contributions have been paid; Spain's limit for interim finance was also fixed at \$7.5 million.

The Council of the O.E.E.C. decided on 18th December 1959 that the Multilateral System of Settlements should be prolonged from 1st January 1960. By the same decision a number of amendments were made to the Agreement and Directives with effect from 1st February 1960; certain other amendments were incorporated in a Supplementary Protocol (No. 3), which was signed by all the Contracting Parties on 15th January 1960. A further Council Decision, also dated 18th December 1959, made certain adjustments to the table of contributions to the European Fund.

A. Changes in the European Fund.

As a result of the accession of Spain, the capital of the Fund now totals \$607.5 million, of which \$335.9 million is to be drawn as required in contributions from member countries (the balance of \$271.6 million being the capital transferred from the E.P.U.). Certain changes have been made with effect from 1st February 1960 in the shares of the individual countries: the contributions of France and Germany have each been increased by \$8 million and that of Italy by \$10 million; the contribution of the United Kingdom

* For convenience the dollar sign (\$) is used throughout the text of this chapter, whether the amount referred to is in U.S. dollars, gold, or E.M.A. units of account.

E.M.A.: Obligations of member countries to pay contributions, as required, to the European Fund.

Member countries	Amounts of contributions	
	Scale in force until 31st January 1960	Revised scale as from 1st February 1960
	in thousands of units of account	
Contributions not deferred		
Austria	5,000	5,000
Belgium	30,000	30,000
France	42,000	50,000
Germany	42,000	50,000
Italy	15,000	25,000
Netherlands	30,000	30,000
Portugal	5,000	5,000
Sweden	15,000	15,000
Switzerland	21,000	21,000
United Kingdom	86,575	60,575
Total not deferred	291,575	291,575
Contributions deferred		
Denmark	15,000	15,000
Greece	2,850	2,850
Iceland	1,000	1,000
Norway	15,000	15,000
Spain	7,500	7,500
Turkey	3,000	3,000
Total deferred	44,350	44,350
Grand total	335,925	335,925

Note: At the request of Austria its contribution ceased to be deferred from May 1959.

has been reduced by \$26 million. The total of member countries' contributions therefore remains unchanged.

The rule for the automatic calling-up of contributions has been slightly modified: although the Agent is still required to call up contributions as soon as the Fund's liquid assets fall below \$100 million, the minimum amount to be called at any one time is now \$5 million instead of \$10 million.

Under a new Article 7bis introduced into the Agreement, the Fund may receive special credits from member countries; the conditions of such credits — in particular the nature of the guarantee, if any — will be determined by the O.E.E.C. Council if occasion arises.

But for some minor changes of a purely technical nature in the provisions of the Directives, the rules governing the granting of credits by the Fund have remained unaltered.

B. Changes in the Multilateral System of Settlements.

Member countries are required to notify to the O.E.E.C. the rates they fix for buying and selling the U.S. dollar for the purpose of limiting the fluctuations of their currencies. Originally, however, countries whose currencies were not officially quoted on the exchange markets of any other member were exempted from this rule; as a result, the rates of Greece, Iceland, Turkey and Spain were not notified. This exemption was abolished with effect from 1st February 1960 and since then the obligation to notify rates has applied to all member countries; the rates for the four countries concerned have been duly notified.

In addition, a closer definition has been made of the balances in another member's currency which a central bank may report for settlement. These balances are, in principle, restricted to liquid funds on current accounts between member central banks. The term "liquid funds", however, includes short-term investments made by a central bank of funds on the account of

E.M.A.: Buying and selling rates for the U.S. dollar.

Member country and currency	Central bank's buying rate for the U.S. dollar	Central bank's selling rate for the U.S. dollar	Parity or middle rate	Margins of buying rates (+) and selling rates (—)
	in units of national currency per U.S. dollar			as percentages of parity
Austria Sch.	25.80	26.20	26.—	± 0.769
Belgium B.fcs.	49.625	50.375	50.—	± 0.750
Denmark D.Kr.	6.9575	6.9575	6.90714	+ 0.719 — 0.729
France NFF	4.90	4.974	4.93706	+ 0.751 — 0.748
Germany DM	4.17	4.23	4.20	± 0.714
Greece Dr.	29.85	30.15	30.—	± 0.500
Iceland I.Kr.	38.—	38.10	38.—	+ 0.000 — 0.263
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.	28.42	29.08	28.75	± 1.148
Spain Pts.	59.55	60.45	60.—	± 0.750
Sweden S.Kr.	5.135	5.2125	5.17321	+ 0.739 — 0.759
Switzerland Sw.fcs.	4.295	4.45	4.37282	+ 1.780 — 1.765
Turkey T£	9.—	9.0252	— ¹	— ¹
United Kingdom. £ ²	2.82	2.78	2.80	± 0.714

¹ The parity of the Turkish lira is T£ 2.80 per U.S. dollar, but Turkey applies a premium on all foreign exchange transactions. This premium is T£ 6.20 per U.S. dollar on all sales and on the major part of purchases of foreign exchange. ² Rates expressed in U.S. dollars per £1.

another central bank, provided that such funds are automatically available for replenishing the account when required.

2. Operations under the European Monetary Agreement.

EUROPEAN FUND.

A. Granting of credits.

The credits to Greece and Turkey were mentioned in the Twenty-ninth Annual Report. Two further credits have since been extended under Article 7 of the Agreement to member countries from the European Fund.

On 20th July 1959 the Council of the O.E.E.C. granted a credit of \$100 million to Spain; this credit was provided in connection with the stabilisation programme drawn up by the Spanish Government and submitted to the O.E.E.C. and the I.M.F. The credit was made available in two tranches: the first tranche, of \$75 million, was for two years from 1st August 1959; the second tranche, of \$25 million, was released on 15th February 1960, after a review by the O.E.E.C. of the progress of the stabilisation programme.

E.M.A.: Credits granted by the European Fund.

	Amount granted	Period available	Interest on amounts drawn	Service charge on amounts undrawn
	In millions of units of account		in percentages per annum	
Credit granted and cancelled Greece	15.0	16th February 1959 to 16th December 1959	3.5	0.25
Credits granted and available Turkey	21.5	16th February 1959 to 15th February 1961	3.5	0.25
Spain	75.0	1st August 1959 to 31st July 1961 15th February 1960 to 14th February 1962	3.75	0.25
	25.0			
Iceland	7.0	20th February 1960 to 19th February 1962	4	0.25
Credit granted and not yet available Iceland	5.0	—		

Similar joint O.E.E.C. and I.M.F. assistance to Iceland was agreed upon in February 1960, in support of a stabilisation programme submitted by the Icelandic Government. The total credit granted from the European Fund was \$12 million: of this amount \$7 million was made available from 20th February 1960; the remainder will be released between August and December 1960 when the O.E.E.C. has satisfied itself of the progress of the Icelandic programme.

E.M.A.: Utilisation of credits granted.

After operations for month	Greece		Turkey		Spain		Iceland		Totals		
	Available and undrawn	Available and undrawn	Drawings outstanding	Available and undrawn	Drawings outstanding	Available and undrawn	Drawings outstanding	Available and undrawn	Drawings outstanding	Total credit granted	
in millions of units of account											
1959											
January . . .	—	—	—	—	—	—	—	—	—	—	
February . . .	15.0	21.5	—	—	—	—	—	36.5	—	36.5	
March	15.0	21.5	—	—	—	—	—	36.5	—	36.5	
April	15.0	21.5	—	—	—	—	—	36.5	—	36.5	
May	15.0	21.5	—	—	—	—	—	36.5	—	36.5	
June	15.0	20.5	1.0	—	—	—	—	35.5	1.0	36.5	
July	15.0	19.5	2.0	51.0	24.0	—	—	85.5	26.0	111.5	
August	15.0	13.5	8.0	51.0	24.0	—	—	79.5	32.0	111.5	
September . .	15.0	13.5	8.0	51.0	24.0	—	—	79.5	32.0	111.5	
October	15.0	2.5	19.0	51.0	24.0	—	—	68.5	43.0	111.5	
November . . .	15.0	1.5	20.0	51.0	24.0	—	—	67.5	44.0	111.5	
December . . .	—	0.5	21.0	51.0	24.0	—	—	51.5	45.0	96.5	
1960											
January	—	0.5	21.0	51.0	24.0	—	—	51.5	45.0	96.5	
February	—	0.5	21.0	76.0	24.0	2.0	5.0	78.5	50.0	128.5	
March	—	—	21.5	76.0	24.0	2.0	5.0	78.0	50.5	128.5	

Both of these credits are, like all credits granted by the Fund, drawn and repayable in gold; the general conditions are similar to those for the credits granted in February 1959 to Greece and Turkey, as shown in the first table on page 169.

The credit of \$15 million to Greece — which was not drawn upon — was cancelled at the request of Greece with effect from 16th December 1959.

B. Utilisation of credits granted.

Between June 1959, when the first drawing was made, and March 1960 there were nine drawings totalling \$52.5 million on credits granted by the Fund; of this, \$2 million had been repaid. The net amount drawn and outstanding after the operations for March 1960 was therefore \$50.5 million; a further \$78 million was available for drawing.

C. Calling-up of the capital.

Under the rules laid down in the Directives, the Agent is required to make an automatic call-up of capital as soon as the liquid assets fall below \$100 million. Capital requirements are at present met entirely by the member countries; no call may be made on the capital held available on the U.S. Treasury account until member countries have paid in a total of \$148 million in contributions.

When it began operations, the European Fund had at its disposal liquid assets totalling \$113 million, being that part of the capital of the European Payments Union transferred in gold and U.S. dollars. It was possible,

E.M.A.: Order of call-up of capital of the European Fund.

	From E.P.U. capital transferred	From members' contributions	Total
in thousands of units of account			
Capital paid in as at 31st March 1960			
Initial transfer from E.P.U.	148,037*	—	148,037
Member countries' non-deferred contributions	—	38,000	38,000
Total to 31st March 1960	148,037	38,000	186,037
To be called up as required			
Further non-deferred contributions of members	—	110,037	110,037
In equal amounts from U.S. Treasury and members	123,538	123,538	247,076
Sub-total	271,575	271,575	543,150
Balance of non-deferred contributions of members	—	20,000	20,000
Deferred contributions of members .	—	44,350	44,350
Total	271,575	335,925	607,500

* Of which \$113.0 million transferred in cash (gold and U.S. dollars) and \$35 million in loans made under the E.P.U. (\$10 million to Norway and \$25 million to Turkey).

E.M.A.: Payment of member countries' contributions to the European Fund
(as at 31st March 1960).

Member countries	Obligations of members for contributions (revised scale) ¹	Contributions paid					Total called up (net)	Uncalled obligations of members (after adjustment)
		First call-up 3rd August 1959	Second call-up 24th August 1959	Third call-up 13th Oct. 1959	Fourth call-up 7th March 1960	Adjustment payments 7th March 1960 ²		
in thousands of units of account								
Austria . . .	5,000	223	171	172	86	—	652	4,348
Belgium . . .	30,000	1,337	1,030	1,028	515	—	3,910	26,090
Denmark . . .	15,000 ³	—	—	—	—	—	—	15,000
France . . .	50,000	1,873	1,440	1,441	857	905	6,516	43,484
Germany . . .	50,000	1,873	1,440	1,440	857	906	6,516	43,484
Greece . . .	2,850 ³	—	—	—	—	—	—	2,850
Iceland . . .	1,000 ³	—	—	—	—	—	—	1,000
Italy	25,000	669	514	515	429	1,131	3,258	21,742
Netherlands . .	30,000	1,337	1,030	1,028	515	—	3,910	26,090
Norway . . .	15,000 ³	—	—	—	—	—	—	15,000
Portugal . . .	5,000	223	171	172	86	—	652	4,348
Spain	7,500 ³	—	—	—	—	—	—	7,500
Sweden	15,000	669	514	515	257	—	1,955	13,045
Switzerland . .	21,000	936	721	720	380	—	2,737	18,263
Turkey	3,000 ³	—	—	—	—	—	—	3,000
United Kingdom .	60,575	3,860	2,969	2,969	1,038	— 2,942	7,894	52,681
Totals	335,925	13,000	10,000	10,000	5,000	—	38,000	297,925

¹ For obligations in force up to 31st January 1960, see table on page 167. ² Payments to, or by (—), the European Fund for adjustments in total obligations of certain countries from February 1960 (see page 166).
³ Contributions the payment of which is deferred.

therefore, to cover the first drawings of credit without calling up any contributions. The call-up mechanism was first brought into operation on 3rd August 1959 and has been used three times since then; in all, \$38 million has been called up from member countries with non-deferred contributions.

MULTILATERAL SYSTEM OF SETTLEMENTS.

The settlement for each month under the European Monetary Agreement takes place on the fifth working day of the following month. The amounts brought into the settlements have been small; in the first fifteen months payments to or by the Fund totalled \$17.1 million.

Amounts brought into the settlements were made up almost entirely of balances under bilateral payments agreements between member countries; of the seven agreements notified, one — that between Turkey and the Netherlands — was terminated at the end of October 1959.

Only one country made extensive use of the right to draw interim finance on other member countries. All drawings were within the limits laid down in the Agreement and were repaid before the end of the month, so that no amounts were brought into the settlements. The uniform rate of

**E.M.A.: Payments made under the Multilateral System of Settlements,
January 1959 to March 1960.**

Accounting period	Payments made by the Fund to (+) or to the Fund by (—)									Total payments by and to the Fund
	Austria	Denmark	Greece	Iceland	Italy	Netherlands	Norway	Sweden	Turkey	
	in thousands of U.S. dollars									
1959										
January . . .	+ 1,486	—	— 1,504	—	—	— 626	—	—	+ 645	2,130
February . . .	+ 1,045	—	— 1,057	—	—	— 90	—	—	+ 103	1,147
March . . .	+ 884	—	— 908	—	—	+ 8	—	—	+ 17	908
April	+ 1,069	—	— 956	—	—	— 168	—	—	+ 55	1,124
May	+ 587	—	— 768	—	—	— 95	—	—	+ 275	863
June	+ 1,289	— 19	— 1,111	—	—	+ 430	— 176	—	— 412	1,719
July	+ 713	+ 9	— 992	—	—	+ 922	— 254	—	— 398	1,644
August	+ 847	+ 9	— 666	—	—	+ 40	— 33	—	— 179	887
September . .	+ 1,402	+ 1	— 1,066	—	—	— 68	+ 44	—	— 315	1,448
October . . .	+ 251	— 22	— 702	—	—	— 331	— 160	—	+ 983	1,215
November . .	+ 468	— 9	— 328	—	+ 243	—	— 246	— 243	+ 115	826
December . .	+ 487	— 8	— 650	—	—	—	— 7	—	+ 178	665
1960										
January . . .	+ 825	+ 60	— 737	—	—	—	+ 35	—	— 183	920
February . . .	+ 815	+ 27	— 460	— 1	—	—	— 192	—	— 190	842
March	+ 612	+ 9	— 765	—	—	—	+ 49	—	+ 95	765
Total payments by the Fund (+)	+12,779	+ 105	—	—	+ 243	+1,400	+ 129	—	+2,445	17,101
or to the Fund (—)	—	— 67	—12,668	— 1	—	—1,378	—1,068	— 243	—1,677	—
Net amount of settlements	+12,779	+ 39	—12,668	— 1	+ 243	+ 22	— 939	— 243	+ 768	—

Note: All but two of the above payments were made in settlement of claims and debts arising from balances held under bilateral agreements and notified under Article 11(a)(iii).

The two exceptions were in respect of balances notified under Article 11(a)(ii) in accordance with Article 13 (see below): a balance of Swedish kronor notified by Italy in November 1959 and a balance of Icelandic kronur notified by Norway in February 1960.

interest charged on drawings was raised in July 1959 from 2 per cent. (the rate fixed in January 1959) to 2½ per cent. in the light of changes in European and U.S. short-term interest rates; it was raised again, to 3 per cent., in February 1960.

Except for the two cases mentioned below, no balances on accounts between central banks — which may be brought into the settlements at the choice of the central bank owning the account — were reported for settlement.

However, when minor modifications were made in the exchange margins of Sweden in November 1959 and also when the devaluation was announced by Iceland in February 1960, small balances in Swedish kronor and Icelandic kronur, held by other member central banks on the day before the changes, were reported and settled at the old selling rates of the two currencies for the U.S. dollar. In this way the exchange guarantee mechanism incorporated

in the Agreement — which covers also balances of interim finance and on bilateral payments accounts — was brought into use for the first time, though the amounts involved were small.

3. Management of the European Fund and the Multilateral System of Settlements.

The management of the Fund and the System of Settlements is in the hands of the Board of Management of the E.M.A., of which Dr. von Mangoldt remains Chairman. The Board meets approximately once a month and is similar in character to its predecessor, the E.P.U. Managing Board. It is concerned with the operations and investments of the European Fund and the working of the System of Settlements, upon which the Agent makes monthly reports to the Board. It also follows closely the general economic situation of member countries on the basis of reports made by the Secretariat and by the various committees of the O.E.E.C. and, on occasion, by special missions. The Agent provides monthly material on the international gold, foreign exchange and capital markets and on the evolution of central-bank reserves in relation to balances of payments.

E.M.A.: Summary of the Statement of Account of the European Fund.

After operations for month	Assets				Total of Statement	Liabilities	
	Liquid resources	U.S. Treasury account	Uncalled capital of member countries	Credits and claims outstanding		Capital Fund	Income and expenditure account
in millions of units of account							
Opening	113.0	123.5	328.4	35.0	600.0	600.0	—
1959 January	113.0	123.5	328.4	35.0	600.0	600.0	0.0
February	113.1	123.5	328.4	35.0	600.1	600.0	0.1
March	113.2	123.5	328.4	35.0	600.2	600.0	0.2
April	113.4	123.5	328.4	35.0	600.3	600.0	0.3
May	113.4	123.5	328.4	35.0	600.3	600.0	0.3
June	112.9	123.5	328.4	36.0	600.6	600.0	0.8
July	100.9	123.5	322.9	61.0	608.4	607.5	0.9
August	105.3	123.5	312.9	67.0	608.8	607.5	1.3
September	105.8	123.5	312.9	67.0	609.2	607.5	1.7
October	105.1	123.5	302.9	78.0	609.6	607.5	2.1
November	104.0	123.5	302.9	79.0	609.5	607.5	2.0
December	104.4	123.5	302.9	80.0	610.9	607.5	3.4
1960 January	104.5	123.5	302.9	80.0	611.0	607.5	3.5
February	104.3	123.5	297.9	85.0	610.8	607.5	3.3
March	104.5	123.5	297.9	85.5	611.4	607.5	3.9

The operations of the Fund as described on the previous pages are clearly reflected in the summary of the Statement of Account. Credits and claims outstanding increased from \$35 million at the opening for business (claims on Norway and Turkey transferred from the European Payments Union) to \$85.5 million in March 1960 as a consequence of the various drawings made on the credits which had been granted. Drawings were met in the first place out of the liquid resources transferred from the E.P.U.,

until these were brought down to approximately \$100 million in July 1959. From then onwards this level was maintained through the calling-up of contributions from member countries (recorded by the decline in the uncalled capital). The increase in the total of the Statement was mainly due to the capital contribution obligated by Spain.

Contributions from member countries to the European Fund bear interest paid out of the income of the Fund at rates decided half-yearly; the first distribution at the rate of 2 per cent. per annum was made in April 1960, covering the period from July to December 1959 (no contributions had been paid by member countries between January and June 1959).

* * *

With the return to convertibility in December 1958 European co-operation in the monetary field was provided with a new framework; the European Payments Union was liquidated and the European Monetary Agreement came into force. Experience gathered during the first year of operations under the E.M.A. has shown that it is well adapted to the new conditions, in which the markets have replaced the settlement mechanism under the E.P.U., while the essential links between the countries of the O.E.E.C. in the monetary field have been maintained.

VIII. Current Activities of the Bank.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1960, certified by the auditors, is reproduced at the end of the present Report. There has been no change in the presentation of the various items.

The method of conversion into gold francs (units of 0.290 322 58 . . . grammes fine gold — Article 5 of the Statutes) of the various currencies included in the balance sheet is the same as that adopted in the preceding years; the conversion is based on the exchange rates quoted for the various currencies against dollars and on the U.S. Treasury's selling price for gold at the end of the financial year.

* * *

The total of the first section of the balance sheet as at 31st March 1960 amounted to 3,429,952,479 gold francs, against 3,528,243,451 gold francs on 31st March 1959.

The following table shows the development of the balance-sheet total during the past five financial years.

B.I.S.: Annual balance-sheet totals
(first section).

Financial years	Total at end of year	Difference
	in millions of gold francs	
1955-56	1,757	—
1956-57	2,181	+ 424
1957-58	2,232	+ 51
1958-59	3,528	+ 1,296
1959-60	3,430	— 98

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 Depositary under the Act of Pledge concluded with the High Authority of the European Coal and Steel Community and as Trustee or Fiscal Agent for international government loans. As was done in the case of the balance sheet as at 31st March 1959, 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 table on the next page.

On 30th April 1959, as a result of the passing through the Bank's accounts of a temporary operation which matured in May, the total of the first part of the monthly statement of account rose above the four milliard mark, reaching the figure of 4,007.2 million gold francs. During the following

B.I.S.: Memorandum accounts (b).

Items	31st March 1959	31st March 1960
	in millions of gold francs	
Earmarked gold	457.5	1,037.5
Bank balances	28.3	38.8
Bills and other securities	918.6	1,021.3
Total of items not included in the balance sheet	1,404.4	2,097.6

months, however, it underwent a steady decline, which brought it down to 3,378.3 million on 31st October. It then rose to 3,502.3 million on 30th November, thereafter falling again to reach 3,394.6 million on 31st January 1960, and on 31st March it stood at 3,430.0 million.

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 22.1 million gold francs on 31st March 1959 to 22.6 million on 31st March 1960. 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 1960 and the balance brought forward from the preceding year, amounted to 24.6 million gold francs on 31st March 1960, against 17.3 million a year earlier. The amount of the item "Provision for contingencies" rose from 156.5 million gold francs on 31st March 1959 to 169.5 million on 31st March 1960. For the item "Miscellaneous" the figure was 19.2 million gold francs at the beginning of the financial year and 19.6 million at the end.

Thus, at the end of March 1960, the Bank's own funds amounted to 361 million gold francs, i.e. about 11 per cent. of the total of the balance sheet on the same date and almost 12 per cent. of the total of deposits (3,069 million gold francs).

The following table shows the figures at the end of each of the last five financial years.

Financial years ended	Own funds	Deposits	Total
	in millions of gold francs		
31st March 1956	294	1,463	1,757
" " 1957	305	1,876	2,181
" " 1958	323	1,909	2,232
" " 1959	340	3,188	3,528
" " 1960	361	3,069	3,430

B. Deposits.

The following tables show the origin, nature and term of the deposits received by the Bank (from central banks and other depositors). Whereas the deposits of central banks increased, though only slightly, those of other depositors fell by approximately one-quarter compared with their level on 31st March 1959, mainly as a result of withdrawals by an international institution whose deposits with the Bank had been particularly large.

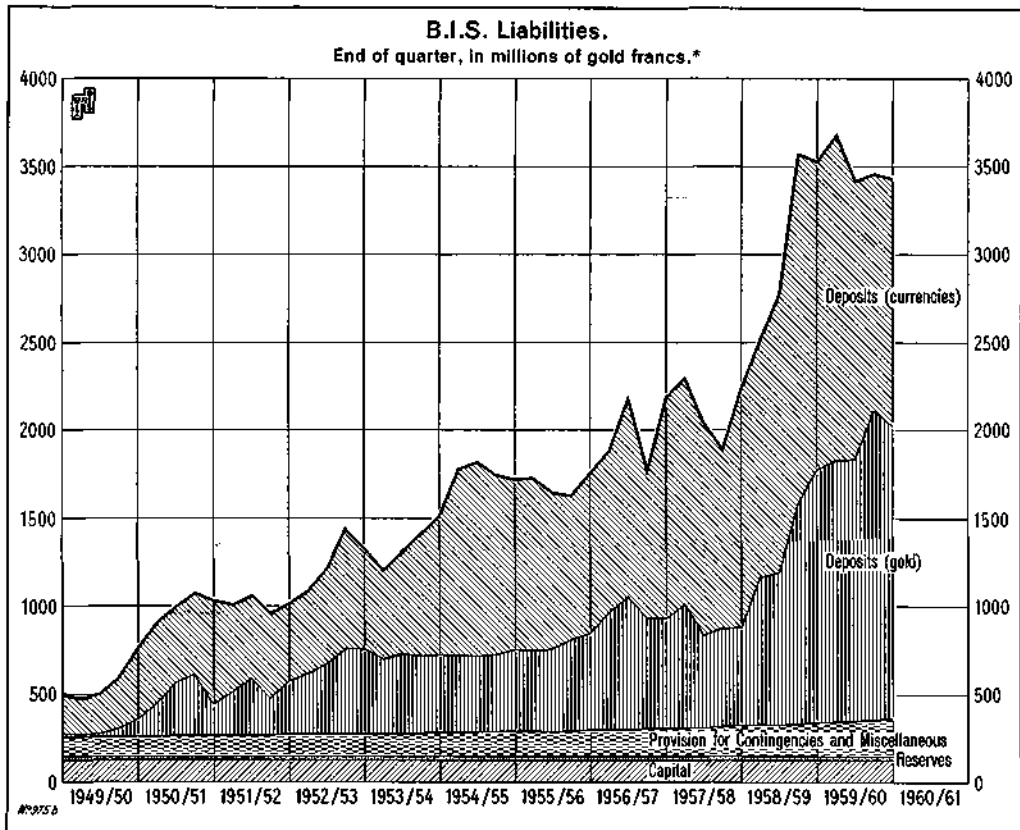
Origin	31st March 1959	31st March 1960	Difference from 31st March 1959 to 31st March 1960
	in millions of gold francs		
Central banks	2,573.2	2,611.1	+ 37.9
Other depositors	615.0	457.5	- 157.5
Total	3,188.2	3,068.6	- 119.6

Nature	31st March 1959	31st March 1960	Difference from 31st March 1959 to 31st March 1960
	in millions of gold francs		
Gold	1,439.7	1,662.3	+ 222.6*
Currencies	1,748.5	1,406.3	- 342.2*
Total	3,188.2	3,068.6	- 119.6

* These figures need to be adjusted slightly in view of the swap operations which sometimes affect certain deposits from the time they are received by the Bank. Taking these operations into account, the real increase in deposits in a weight of gold was 210 million gold francs and the decline in currency deposits 329 million gold francs.

Term	Deposits in gold			Deposits in currencies		
	31st March 1959	31st March 1960	Difference	31st March 1959	31st March 1960	Difference
	in millions of gold francs					
At sight	713.5	1,054.6	+ 341.1	61.5	39.0	- 22.5
At not exceeding 3 months	601.0	533.2	- 67.8	1,179.8	1,182.6	+ 2.8
Between 3 and 6 months	125.2	74.5	- 50.7	383.4	183.3	- 200.1
Between 6 and 9 months	—	—	—	15.4	—	- 15.4
Between 9 and 12 months	—	—	—	1.4	1.4	—
Over 1 year	—	—	—	107.0	—	- 107.0
Total	1,439.7	1,662.3	+ 222.6	1,748.5	1,406.3	- 342.2

The total of deposits in currencies fell by 329 million gold francs. This decline was partly due to the development of short-term interest rates, the rise in which was accentuated on several markets during the financial year under review. In this field, as in others, the Bank endeavours to adapt its terms and conditions to the sometimes rapid fluctuations of the money markets. Generally speaking, the central banks, in recognition of the services which the Bank renders them in other respects, left with it a large proportion of their existing deposits.



There was also a decline in time deposits in a weight of gold, which fell by 142 million gold francs (not taking into account the swap operations affecting certain deposits). This decline was to a great extent due to a certain falling-off in the Bank's forward operations.

Sight deposits in gold increased by as much as 352 million gold francs. It should be noted that sight deposits in a weight of gold are often the outcome of sales of gold by the Bank to its correspondents.

In any case, attention is drawn to the ever-increasing proportion of sight deposits (which are virtually all in a weight of gold) in the Bank's balance sheet.

EMPLOYMENT OF RESOURCES (assets).

In order to afford a comparison with the analysis of the deposits appearing on the liabilities side of the balance sheet, the distribution of the Bank's assets is considered below first according to their nature and then according to their term.

The increase of about 403 million gold francs in the Bank's bullion holdings roughly corresponds to the rise in deposits in a weight of gold

B.I.S.: Total cash and investments.

Nature	31st March 1959		31st March 1960		Difference	
	in millions of gold francs					
Cash						
Gold	1,158.4		1,561.5		+ 403.1	
Currencies	70.8	1,229.2	54.8	1,616.3	- 16.0	+ 387.1
Investments						
Gold	144.1		151.8		+ 7.7	
Currencies	2,085.4	2,229.5	1,592.3	1,744.1	- 493.1	- 485.4
Total						
Gold	1,302.5		1,713.3		+ 410.8	
Currencies	2,156.2	3,458.7	1,647.1	3,360.4	- 509.1	- 98.3

(223 million) and the decline in forward gold operations (164 million). There was scarcely any change in the Bank's investments expressed in a weight of gold. As for the reduction of 509 million gold francs in the total of the Bank's currency holdings and investments, this was almost entirely due to the decline of 342 million in the deposits received in currencies and that of 164 million in forward gold operations.

In the following table the items which have to be taken into account in considering the Bank's gold position are compared as they stood on certain representative dates chosen so as to bring out the maximum and minimum figures for the year.

B.I.S.: Gold position.

End of month	Spot position				Forward operations (net balance)	Final net gold position
	Gold in bars and coins	Investments in gold	Deposits in a weight of gold	Net gold assets		
in millions of gold francs						
1959						
March	1,158	144	-1,440	-138	+419	281
April	1,633 (max.)	141	-1,432 (min.)	342 (max.)	- 64 (min.)	278
June	1,489	67 (min.)	-1,482	74	+202	276 (min.)
October	1,124 (min.)	179 (max.)	-1,500	-197	+481	284
December	1,165	175	-1,751 (max.)	-411 (min.)	+703 (max.)	292
1960						
February	1,569	151	-1,692	28	+314	342 (max.)
March	1,561	152	-1,662	51	+255	306

As is shown by the table, forward gold operations underwent fairly considerable fluctuations. At the end of the financial year they were, it is true, below the level at which they had stood on 31st March 1959; but whereas on 31st March 1959 forward purchases of gold totalled 765 million gold francs and forward sales 346 million (giving the balance of 419 million shown in the above table), they amounted on 31st December, for example, to 1,009 and 306 million respectively (giving a balance of 703 million) and at the end of the financial year to 585 and 330 million respectively (giving a balance of 255 million).

A. *Sight funds, rediscountable investments and investments cashable on demand.*

The total of the item Gold in bars and coins (in fact it consisted at the end of the financial year almost entirely of gold in bars) amounted to 1,158.4 million gold francs in the balance sheet of 31st March 1959. It reached its highest level — 1,632.6 million — on 30th April and its lowest level — 1,123.7 million — on 31st October. It subsequently rose gradually and stood at 1,561.5 million on 31st March 1960.

The changes in the item Cash on hand and on sight account with banks were sometimes quite appreciable. At the end of March 1959 it stood at 70.9 million; it reached its highest level on 31st December, at 105.8 million, and its lowest point on 29th February 1960, at 36.1 million. At the end of the financial year it amounted to 54.8 million.

The average balance shown under this heading during the financial year 1959-60 was approximately 56 million gold francs, compared with 60 million in the preceding financial year.

On 31st March 1960 total gold and currency holdings represented 47.1 per cent. of the total of the first part of the Bank's balance sheet, against 34.8 per cent. a year earlier.

The development of the Rediscountable portfolio, which is made up of Commercial bills and bankers' acceptances and Treasury bills, is shown in the following table, which also gives the maximum and minimum figures for the items in question.

B.I.S.: Rediscountable portfolio.

End of month	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of gold francs		
1959 March	22.2	823.7	845.9
August	11.8 (min.)	789.0	800.8
November	11.8	912.0 (max.)	923.8 (max.)
1960 March	74.6 (max.)	446.5 (min.)	521.1 (min.)

After having declined by almost half by the end of August, the portfolio of bills and bankers' acceptances, which in fact consists solely of dollar acceptances, rose again considerably by the end of the financial year. The figure for the portfolio of Treasury bills did not fluctuate to any marked extent until towards the end of the calendar year; as the table above shows, it fell later by more than half. On 31st March 1960 85 per cent. of this item was made up of U.S. Treasury bills.

The item Sundry bills cashable on demand, which is of relatively small importance, amounted to 22.9 million gold francs on 31st March 1959 and reached 37.8 million — its highest point for the financial year — on 31st March 1960. Its lowest point was 17.0 million on 31st August 1959.

The total of the Bank's sight funds and rediscountable investments, comprising the assets items so far analysed, was thus 2,098 million gold francs at the beginning of the financial year. It rose to its highest level one month later, having stood at 2,633.2 million on 30th April, and reached its lowest point — 2,068.4 million — on 31st October. On 31st March 1960 it amounted to 2,175.2 million.

This figure represents 63.4 per cent., or almost two-thirds, of the total of the assets shown in the first part of the balance sheet, against 59.4 per cent. a year earlier. During this period the percentage of sight deposits on the liabilities side rose from 22 to 31.9 per cent., or just under one-third of the balance-sheet total. A comparison of these two percentages shows the degree of the Bank's liquidity.

B. Time deposits and investments.

There were considerable fluctuations in the total of the item Time deposits and advances. On 31st March 1959 it stood at 522.3 million gold francs, its highest point for the financial year. After falling to 351.8 million on 31st August and rising again to 503.1 million on 30th November, it reached its lowest point — 270 million — on 31st January 1960 and stood at 453.9 million at the end of the financial year.

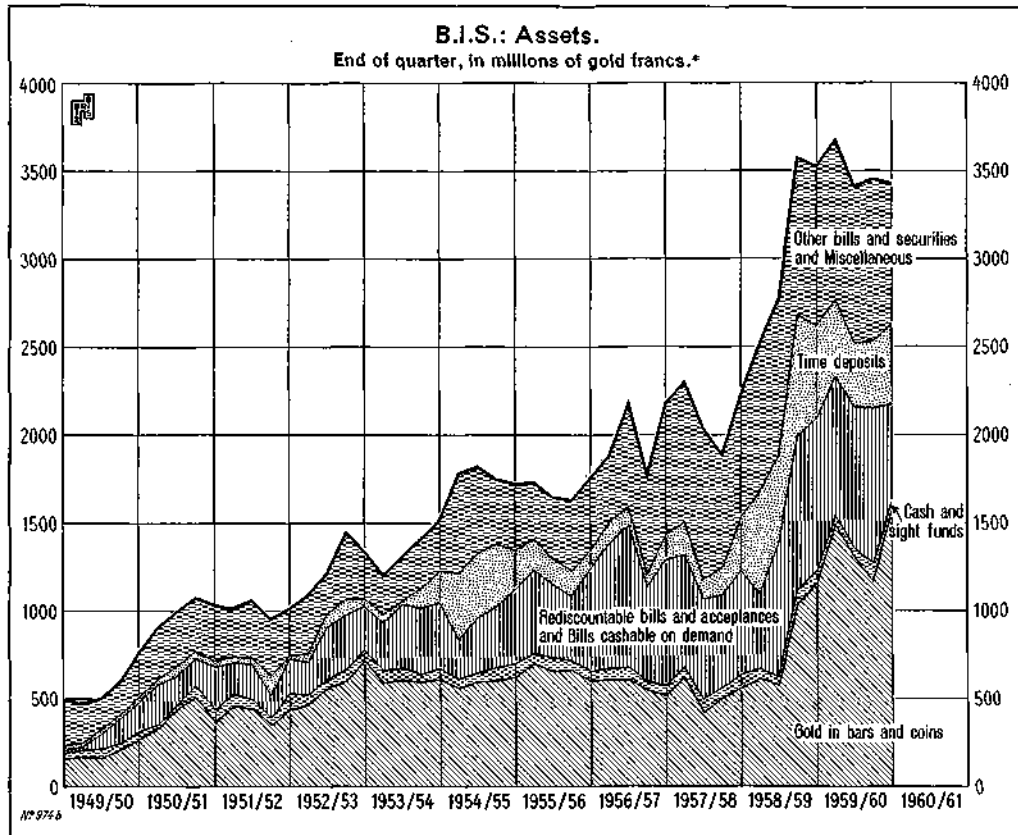
Altogether, however, the amounts figuring under this heading were smaller than in the preceding financial year. A certain amount of short-term advances were repaid.

The total of the item Other bills and securities, on the other hand, changed only slightly. It amounted to 838.4 million gold francs on 31st March 1959, reached 890.6 million — its highest point for the financial year — on 31st July, fell to 763.7 million on 30th November, subsequently underwent slight fluctuations and stood at 731.3 million — its lowest point — at the end of the financial year.

The following table shows the distribution of the above-mentioned investments from the point of view of time and compares their composition at the beginning and end of the financial year.

B.I.S.: Time deposits and advances and other bills and securities.

Periods	31st March 1959	31st March 1960	Difference
	in millions of gold francs		
Not exceeding 3 months	918.3	1,047.9	+ 129.6
Between 3 and 6 months	97.6	29.4	— 68.2
Between 6 and 9 months	39.5	24.9	— 14.6
Between 9 and 12 months	106.9	62.8	— 44.1
Over 1 year	198.4	20.2	— 178.2
Total	1,360.7	1,185.2	— 175.5



Investments at over three months fell considerably, especially those at over one year and at three to six months. As has been mentioned above, the total of deposits at over three months in the Bank's books declined by about 373 million gold francs; the reduction in investments for periods exceeding three months amounted to about 305 million.

GENERAL REMARKS ON THE BANK'S OPERATIONS.

The following table shows the total volume of the Bank's operations in the course of the last five financial years.

It will be seen that the figure for the financial year 1959-60 was distinctly higher than that for the preceding financial year and approached that for 1957-58. It is worth while recalling, however, that in the last-mentioned financial year the figure was particularly high as a result of the passing through the Bank's books of entries relating to the monthly settlements of the European Payments Union, which at that time represented about one-fifth of all transactions.

B.I.S.: Total volume of operations.

Financial years	In millions of gold francs
1955-56	24,856
1956-57	45,448
1957-58	59,170
1958-59	47,811
1959-60	53,291

The marked rise in the past financial year in comparison with 1958-59 was therefore due solely to an expansion in normal banking transactions. As has already been pointed out, an ever-increasing proportion of the Bank's turnover takes the form of spot operations coupled with forward transactions for similar amounts.

The volume of the Bank's gold operations in each of the last five financial years is shown in the following table.

B.I.S.: Volume of gold operations.

Financial years	In millions of gold francs
1955-56	4,650
1956-57	7,004
1957-58	10,848
1958-59	8,716
1959-60	10,930

B.I.S.: Volume of exchange transactions.

Financial years	In millions of gold francs
1955-56	1,855
1956-57	4,375
1957-58	5,205
1958-59	4,019
1959-60	7,096

What has been said above with regard to the Bank's operations in general applies also to gold operations, the volume of which during the past year was in fact the largest yet recorded. It has also been mentioned that forward operations — either definitive or combined with corresponding purchase or sale options — are increasingly predominating over spot transactions.

As was mentioned at the beginning of this chapter, the amount of earmarked gold on memorandum accounts (b) went up from 457.5 million gold francs on 31st March 1959 to 1,037.5 million on 31st March 1960.

The volume of exchange transactions was again considerable and showed a further expansion, as can be seen from the accompanying table.

* * *

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.

In conformity with the agreements previously concluded the Bank continued to perform the functions of Fiscal Agent of the Trustees for the new bonds of the German External Loan 1924 (Dawes Loan) and of Trustee for the new bonds of the German Government International Loan 1930 (Young Loan) which were issued by the Government of the Federal Republic of Germany in accordance with the London Agreement on German External Debts of 27th February 1953.

The validation and exchange of old bonds have been completed for both the Dawes and the Young Loans, the only exceptions being the Dutch issues of the two loans and a few special cases which still remain to be settled.

The financial year 1959-60 ended for the Dawes Loan on 15th April 1960 and for the Young Loan on 1st June 1960. The interest in respect of the financial year 1959-60 amounted to the equivalent of about 16.5 million gold

German External Loan 1924
(Dawes Loan).

Issue	Currency	Nominal value			
		Bonds issued	Bonds purchased or drawn for redemption in respect of the financial years		Balance after redemption
			1958-59	1959-60	
Conversion bonds					
American . . .	\$	43,559,000	1,378,000	1,383,000	40,798,000
Belgian	£	578,300	17,500	12,300	548,500
British	£	8,102,800	237,700	170,900	7,694,200
Dutch	£	727,900	10,600	19,300	698,000
French	£	1,884,200	51,000	42,400	1,790,800
Swedish	S.Kr.	14,209,000	285,000	298,000	13,626,000
Swiss	£	1,115,300	32,000	23,900	1,059,400
Swiss	Sw.fcs.	8,220,000	169,000	172,000	7,879,000
Funding bonds					
American . . .	\$	8,139,000	268,000	228,000	7,643,000
Belgian	£	156,400	6,000	5,500	144,900
British	£	2,187,100	81,800	73,500	2,031,800
Dutch	£	156,700	2,500	5,200	149,000
French	£	486,600	17,000	19,200	450,400
Swiss	£	114,200	3,900	3,900	106,400
Swiss	Sw.fcs.	413,000	11,000	12,000	390,000

German Government International Loan 1930
(Young Loan).

Issue	Currency	Nominal value*			
		Bonds issued	Bonds purchased or drawn for redemption in respect of the financial years		Balance after redemption
			1958-59	1959-60	
Conversion bonds					
American . . .	\$	54,822,000	547,000	577,000	53,698,000
Belgian	B.fcs.	202,354,000	2,132,000	2,109,000	198,113,000
British	£	17,651,200	181,100	185,300	17,284,800
Dutch	Fl.	27,463,000	168,000	424,000	26,871,000
French	NFF	442,891,000	4,492,000	4,659,000	433,740,000
German	DM	12,198,000	113,000	140,000	11,945,000
Swedish	S.Kr.	92,752,000	959,000	968,000	90,825,000
Swiss	Sw.fcs.	58,249,000	618,000	612,000	57,019,000
Funding bonds					
American . . .	\$	8,878,000	103,000	92,000	8,683,000
Belgian	B.fcs.	45,552,000	505,000	494,000	44,553,000
British	£	4,211,000	50,500	43,500	4,117,000
Dutch	Fl.	2,903,000	8,000	57,000	2,838,000
French	NFF	97,553,000	1,077,000	1,040,000	95,436,000
German	DM	358,000	4,000	4,000	350,000
Swedish	S.Kr.	6,014,000	87,000	49,000	5,878,000
Swiss	Sw.fcs.	1,400,000	17,000	15,000	1,368,000

* Nominal value on 16th May 1960 established in accordance with the provisions of the London Agreement on German External Debts of 27th February 1953.

francs for the Dawes Loan and to the equivalent of about 42.4 million gold francs for the Young Loan; they were duly paid to the Bank, which distributed them among the Paying Agents. Redemption, which began in 1958, was effected in the case of the two loans during the financial year 1959-60 both by means of purchases of bonds on the market and by means of drawings. The resulting position of the two loans is as shown in the tables on the previous page.

The Bank also performs the function of Trustee for the assented bonds of the Austrian Government International Loan 1930. The assenting of the old bonds has been completed, except in the case of the American issue. The amount of interest due in respect of the financial year 1959, which in the case of this loan corresponds to the calendar year, was the equivalent of about 1.7 million gold francs; this was duly paid to the Bank, which distributed it among the Paying Agents.

The financial year 1959 was the first in which a redemption was due; this redemption was carried out by purchases of bonds on the market. As a result of this operation and after the cancellation of other assented bonds in the possession of the Government of the Republic of Austria the position is as follows.

Austrian Government International Loan 1930.

Issue	Currency	Nominal value		
		Bonds assented	Bonds purchased for redemption in respect of the financial year 1959	Balance after redemption
American	\$	1,570,000	70,000	1,500,000
Anglo-Dutch	£	856,600	30,200	826,400
Swiss	Sw.fcs.	7,102,000	213,000	6,889,000

With regard to the coupons of the Austrian Government International Loan 1930 which the Federal Republic of Germany has undertaken to pay to the extent of 75 per cent. of the nominal value, the sums due in respect of these continued to be furnished through the intermediary of the Bank in its capacity as Trustee. The last coupon is to be paid on 1st July 1962, but the coupon-holders can obtain advance payment subject to the deduction of a discount. The sums paid in respect of these coupons up to now amount to the equivalent of about 4.2 million gold francs.

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.

Previous Annual Reports have described the functions which the Bank performs in its capacity as Depositary under the terms of an Act of Pledge concluded with the High Authority of the European Coal and Steel Community in Luxemburg on 28th November 1954.

During the year ended 31st March 1960 the High Authority did not borrow any funds under the terms of the Act of Pledge. The total amount of

**Loans contracted by the High Authority of the European
Coal and Steel Community.**

Series of Secured Notes of the High Authority	Dates of issue	Countries of issue	Lenders	Original amounts of loans	Amounts unredeemed on 1st April 1960	Rates of interest %	Periods of loans (years)
1st	1954	United States	U.S. Government	\$ 100,000,000	94,000,000	3%	25
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fcs. 200,000,000	189,900,000	3½	27
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	23,023,650	3%	26
			Landesbank für Westfalen (Girozentrale), Münster	DM 25,000,000	23,023,650	3%	26
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fcs. 20,000,000 Lux.fcs. 5,000,000	18,990,000 4,745,000	3%	27
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM 2,977,450*	2,786,893	4½	21
6th	1956	Switzerland	Public issue	Sw.fcs. 50,000,000	50,000,000	4½	18
7th	1957	United States	Public issue	\$ 25,000,000	25,000,000	5%	18
8th			Public issue	\$ 7,000,000	4,690,000	5	3-5
9th	1957	Luxemburg	Bank loans	\$ 3,000,000	2,010,000	5	3-5
10th			Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	Lux.fcs. 100,000,000	100,000,000	5%	25
11th	1958	United States	Public issue	\$ 35,000,000	35,000,000	5	20
12th			Public issue	\$ 15,000,000	15,000,000	4½	3-5

* This loan, which was contracted in French francs, has been converted into Deutsche Mark. The original amount was 350,000,000 old French francs.

the loans contracted by the High Authority in accordance with the provisions of that document accordingly remain at the same figure as that mentioned in the Twenty-ninth Annual Report, namely, the equivalent of about 660 million gold francs. Repayments by the High Authority up to 31st March last amounted to the equivalent of about 32 million gold francs, which reduces the total outstanding amount of these loans to the equivalent of about 628 million gold francs. Particulars of these loans are given in the table above.

During the year under review the Bank for International Settlements received and paid out the equivalent of about 31 million gold francs in respect of interest and the equivalent of about 21 million gold francs in respect of redemption.

4. The Bank as Agent for the Organisation for European Economic Co-operation (European Monetary Agreement).

The introduction and working of the European Monetary Agreement was described in the Twenty-ninth Annual Report of the Bank and the description is brought up to date in Chapter VII of the present Report.

The Bank has continued to act as Agent for the Organisation for European Economic Co-operation under the arrangements previously made. The expenses of the Bank as Agent for the O.E.E.C. amounted to 559,411 gold francs in the twelve months to March 1960; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1960).

5. Financial results.

The accounts for the thirtieth financial year ended 31st March 1960 showed a surplus of 29,064,716 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 22,550,894 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 1960, 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 of 29,064,716 gold francs, the Board of Directors has decided to transfer 750,000 gold francs to the provision for exceptional costs of administration and 13,000,000 gold francs to the provision for contingencies.

The net profit for the year thus amounts to 15,314,716 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 765,736 gold francs, and with the addition of the balance of 9,279,928 gold francs brought forward from the previous year, there is a sum of 23,828,908 gold francs available.

The Board of Directors recommends that the present General Meeting should distribute, as last year, a dividend of 37.50 gold francs per share, involving a distribution of 7,500,000 gold francs.

In view of the very favourable results of the financial year 1959-60 and of the substantial balance carried forward last year, the Board of Directors also recommends that, as an exceptional measure, a lump sum of 8,500,000 gold francs should be applied this year to the reduction of the amount of the undeclared cumulative dividend, this sum representing an extraordinary distribution of 42.50 gold francs per share.

The total distribution will thus amount this year to 80 gold francs, payable on 1st July 1960 in the amount of 114.30 Swiss francs per share. The balance carried forward will be 7,828,908 gold francs.

The amount of the undeclared cumulative dividend will, as a result of this distribution, be reduced from 369.47 to 326.97 gold francs per share. It is recalled that the provisions of the Statutes relating to the cumulative dividend give shareholders the assurance that no remuneration will be paid in respect of the long-term deposits made under the Hague Agreements of 1930 by the Creditor Governments and by the German Government unless the shareholders have received in full the dividend permitted by Article 53 (b) and (c) of the Statutes.

The accounts of the Bank and its thirtieth 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.

In January 1960, on the appointment of M. Wilfrid Baumgartner as the French Minister of Finance and Economic Affairs, his successor as Governor of the Bank of France, M. Jacques Brunet, became an ex officio member of the Board of the Bank for International Settlements. At the meeting of the Board held on 8th February 1960 the Chairman warmly welcomed M. Brunet on his first attendance as a member. At the same time the Chairman paid a tribute to M. Baumgartner for the eminent services he had rendered to the Bank during his term of office.

The mandate of Mr. Per Åsbrink, Governor of Sveriges Riksbank, being due to expire on 31st March 1960, he was re-elected by the Board under Article 28(3) of the Statutes at the meeting held on 14th March 1960 for a further period of three years, ending 31st March 1963.

M. H. Deroy, who had been appointed by the Governor of the Bank of France as a Director under Article 28(2) of the Statutes and whose term of office was due to expire on 31st March 1960, was re-appointed in February 1960 for a period of three years, ending 31st March 1963.

The mandate of Sir Otto Niemeyer, Vice-Chairman of the Board, as a Director of the Bank was due to expire on 6th May 1960. He was re-appointed by the Governor of the Bank of England under Article 28(2) of the Statutes for a further period of three years, ending 6th May 1963.

In December 1959 Dr. Menichella appointed Dr. Guido Carli, General Manager of the Bank of Italy, as his Alternate in the place of Dr. Paride Formentini, who had been appointed Chairman of the Committee of Management of the European Investment Bank.

Conclusion.

The course of economic developments in the countries of western Europe in 1959 provided confirmation of their ever-increasing interdependence and of the similarity of the problems with which they are confronted. The events of the past year confirmed, too, the growing interdependence of Europe and North America. Further, they also confirmed that, allowance being made for the differences attributable to natural factors and for a certain time-lag, the same economic problems have to be contended with on both sides of the Atlantic. This situation has arisen largely as a result of the progress made in restoring freedom of trade and payments: all the countries whose currencies are convertible are now open to a very great extent — at least as far as their industries are concerned — to foreign competition, and their financial markets are profoundly influenced by one another.

For these reasons the economic development of the industrialised countries of the West must nowadays be viewed as a whole.

The picture which it presents is encouraging. During the past year their aggregate national income went up, in real terms, by 4-5 per cent. in comparison with 1958; prices remained relatively stable; the proportion of the national income devoted to investment rose; and employment, especially in Europe, was at a high level. It would appear that, for the time being at least, the problem of how to increase production and investment and maintain a high level of employment without jeopardising price stability has been solved. It seems that a certain equilibrium between inflation and deflation has been achieved, the inevitable deviations from which ought increasingly to take the form merely of moderate adjustments not necessarily affecting all countries or, within a given country, all sectors.

The functioning of the western economy still, however, presents serious problems. Three of these, which have been discussed in the present Report, are worth recalling here.

Firstly, price stability, when, as last year, it is attained, is too often precarious. In the first two chapters of the Report some of the factors which at present influence the level of prices are enumerated: the power of the trade unions in the matter of wages; the power of certain categories of producers as regards prices; the irreversible character of wage increases; and the resistance of some prices to reduction, even in periods of slackening activity, owing to the existence of certain monopolies or quasi-monopolies. As a result the safeguarding of the purchasing power of money largely depends nowadays on decisions taken with regard to wage increases. And in this matter, it must be admitted, the practice of most western countries is empirical and has no clearly defined basis. The principle generally accepted is that the workers ought to receive their fair share of the benefits of higher

productivity in the form of increases in their real remuneration, but that the enterprises and the mass of consumers are also entitled to a share and that, at all events, the general level of prices must not be endangered whenever wages are raised. Wages are in fact fixed as a result both of free bargaining between workers and employers and of government intervention, the extent and form of which vary widely from country to country. This empirical approach can lead, as it did in 1959, to virtual stability of the purchasing power of currencies, and it is quite possible that this is in fact a sound method. But there is no guarantee that such reasonable solutions will always prevail in the future. Much depends on the extent to which the parties concerned — the wage-earners in their claims and the enterprises in the fixing of prices — remember where their real interest lies.

A second problem is that of equilibrium in the payments relations between the countries of the western world. In the course of 1959 the deficit of the United States vis-à-vis the rest of the world — which is in a large measure a deficit vis-à-vis western Europe — reached a level at which it cannot remain without creating difficulties. The gravity of the problem should not be exaggerated: the United States is after all the most important creditor country in the world, the existence of a U.S. deficit helps to strengthen international liquidity and, moreover, there are various indications which appear to justify the hope that the deficit is already beginning to decline. But the problem should not be minimised either: an excessively large U.S. deficit has a disturbing effect not only on the working of the international payments system but also on the monetary stability of the European countries which accumulate foreign exchange surpluses. The restoration of a better equilibrium between the United States and Europe is therefore necessary in the common interest. Although the main responsibility for this naturally rests with the United States, Europe, too, has certain obligations. A lasting solution is possible only if the western countries all pursue policies which take account of the state of their balances of payments. It is essential that they should work harmoniously in consultation with one another and should always be prepared to adjust their policies in the light of the general interest. Though there is certainly room for further progress in this respect on both sides of the Atlantic, it is gratifying to note the efforts already being made by the western European countries, the United States and Canada with a view to achieving, within the framework of a common organisation, a closer co-ordination of their monetary and economic policies.

A third problem is that of the composition of international liquidity — a question which has already been touched upon in the preceding paragraph. Despite the expansion in trade, it cannot be said that the volume of international liquidity (here regarded as the total of known holdings of monetary gold together with the short-term dollar and sterling balances held by foreign countries) is at present inadequate. But its structure is worthy of attention. From the end of 1949 to the end of 1959 the part consisting of gold holdings increased from \$35.4 to 40.7 milliard, that consisting of sterling from \$8.8 to 9.8 milliard and that consisting of dollars from \$6.0 to 16.2 milliard, or from

12 to 24 per cent. of the total. This rise in dollar balances, a large proportion of which are in fact held by Europe, has provided a useful addition to international liquidity, but at the same time it brings with it certain responsibilities. For one of the conditions for the smooth working of the system is that the holders of these balances should feel it to be in their interest to retain them. Here again the main responsibility rests with the United States, which must itself ensure that international confidence in its currency is maintained and also that the conditions offered to foreign holders are sufficiently attractive. But co-operation on the part of others is also needed; in particular, the attitude of non-U.S. private holders of dollar deposits is determined to some extent by the conditions prevailing on financial markets other than that of New York and by the decisions of those who shape monetary policy in the leading European countries. Never has it been more essential than it is today that the authorities in all countries, when forming their policies, should be fully aware of the international repercussions of their decisions.

* * *

The existence of the three problems mentioned does not prevent the countries of the West from feeling an understandable satisfaction at the development of their economies over the past year.

Many commentators, however, doubt whether this satisfaction is fully justified. They point out that, if the situation is viewed from a world-wide angle, consideration of the performances of the industrialised countries of the East, on the one hand, and of countries in the course of development, on the other, may lead to a less favourable verdict on the way in which the industrialised countries of the West are run.

The observations made in Chapter II of this Report in connection with the comparison of economic growth rates in the countries of the East and in those of the West show how much caution is needed in any attempt to interpret the apparently more favourable results achieved by the eastern countries.

There is, in any case, one conclusion which it would certainly be wrong to draw, namely, that the countries of the West, in order to raise their rates of expansion, should be less concerned than they are with questions of financial equilibrium and should not be afraid to risk a certain amount of inflationary financing. For the example of the eastern countries in fact shows that it is in a climate of systematically maintained purchasing power that their remarkable performances have been achieved. And history proves that inflation is in the end always more harmful than beneficial to the cause of economic progress.

Against this, there is one question which may suggest itself when the two groups of countries are compared. Statistics indicate that the eastern countries allocate a smaller share of their national income to consumption

than do the countries of the West. It may be asked whether the western countries as a whole devote a sufficiently large proportion of their resources to investment, i.e. to future consumption. There is probably no general answer to this question, since neither the levels of investment actually attained nor the rates of expansion aimed at are the same in all countries. But on the whole it is justifiable to assume that the western countries, if they wish to step up their rates of expansion, need to devote a larger proportion of their resources to investment than they have in the past. Their economic system provides them with a wide variety of ways of increasing both public and private saving. And the increase in productivity makes it possible for them to improve their rates of saving while at the same time permitting the necessary growth in consumption.

A similar conclusion may be drawn from a comparison between the state of affairs in the industrialised countries and that in the countries in course of development. For such a comparison shows that, if account is taken of the growth in the population of the countries in course of development, the gap between their standard of living and that of the industrialised countries is tending to widen. This is due, among other things, to the fact that their incomes are too small for them to be able to spare enough resources for investment to ensure a reasonable rate of growth. The industrialised countries will therefore certainly have to go on providing a substantial amount of assistance to the nations in course of development. And if they are to shoulder this burden without unduly curtailing their own investment, how else can they do so except by limiting the proportion of the national income which is devoted to public and private consumption?

It can thus be said, generally speaking, that the industrialised countries of the West, whether they are concerned to safeguard the stability of the purchasing power of their currencies, to achieve the rates of economic expansion envisaged or to assist the countries in course of development, can only attain their objectives if they save an adequate proportion of their resources. And this they are fully capable of doing.

Respectfully submitted,

GUILLAUME GUINDEY

General Manager.

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

AS AT 31st MARCH 1960

BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		%
Gold in bars and coins	1,561,449,057	45.5
Cash on hand and on slight account with banks	54,838,712	1.6
Rediscountable bills and acceptances		
Commercial bills and bankers' acceptances	74,634,899	2.2
Treasury bills	<u>446,522,519</u>	13.0
	521,157,418	
Sundry bills cashable on demand	37,755,444	1.1
Time deposits and advances		
Not exceeding 3 months	434,383,318	12.7
» » » » (gold)	10,208,469	0.3
Between 3 and 6 months	7,882,865	0.2
Between 9 and 12 months	<u>1,412,331</u>	0.0
	453,886,983	
Other bills and securities		
Gold		
Not exceeding 3 months	111,948,633	3.3
Between 3 and 6 months	19,245,597	0.6
Between 6 and 9 months	10,370,869	0.3
Currencies		
Not exceeding 3 months	491,400,475	14.3
Between 3 and 6 months	2,274,993	0.1
Between 6 and 9 months	14,504,008	0.4
Between 9 and 12 months	61,409,596	1.8
Over 1 year	<u>20,165,022</u>	0.6
	731,319,193	
Miscellaneous assets	1,254,448	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>	2.0
	<u>3,428,952,479</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)	255,283,162	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold	1,037,505,564	
Bank balances	38,792,972	
Bills and other securities	1,021,266,200	

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, 4th May 1960.

AS AT 31st MARCH 1960

GRAMMES FINE GOLD — ART. 6 OF THE STATUTES)

LIABILITIES

		%
Capital		
Authorised and issued 200,000 shares, each of 2,500 gold francs	<u>500,000,000</u>	
of which 25% paid up	125,000,000	3.6
Reserves		
Legal Reserve Fund	9,263,645	
General Reserve Fund	<u>13,342,650</u>	
	22,606,295	0.7
Deposits (gold)		
Central Banks:		
Between 3 and 6 months	65,102,502	1.9
Not exceeding 3 months	502,059,209	14.6
Sight	940,386,447	27.4
Other depositors:		
Between 3 and 6 months	9,337,684	0.3
Not exceeding 3 months	31,163,551	0.9
Sight	<u>114,204,791</u>	3.3
	1,662,254,184	
Deposits (currencies)		
Central Banks:		
Between 9 and 12 months	1,411,373	0.0
Between 3 and 6 months	152,430,815	4.4
Not exceeding 3 months	930,301,500	27.1
Sight	19,378,973	0.6
Other depositors:		
Between 3 and 6 months	30,887,133	0.9
Not exceeding 3 months	252,347,296	7.4
Sight	<u>19,597,442</u>	0.6
	1,406,354,532	
Miscellaneous	19,642,824	0.6
Profit and Loss Account		
Balance brought forward from the financial year ended		
31st March 1959	9,279,928	
Profit for the financial year ended 31st March 1960	<u>15,314,716</u>	
	24,594,644	0.7
Provision for contingencies	<u>169,500,000</u>	5.0
	<u>3,429,952,479</u>	<u>100</u>
Agreements of 1930		
Long-term deposits		
Annuity Trust Account Deposits of Creditor Governments (see Note 3)	152,606,250	
German Government Deposit	<u>76,303,125</u>	
	228,909,375	
Own funds employed in execution of the Agreements (see above)	<u>68,291,223</u>	
	<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 1960, 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 1960

		Gold francs
Net income from the use of the Bank's own funds and the deposits entrusted to it		33,450,513
Commission earned as Trustee, etc.		650,802
		34,101,315
Costs of administration:		
Board of Directors — fees and travelling expenses ...	227,091	
Executives and staff — salaries, pension contributions and travelling expenses	4,359,472	
Rent, Insurance, heating, electricity	28,269	
Renewals and repairs of buildings and equipment ...	186,406	
Office supplies, books, publications, printing	363,799	
Telephone, telegraph and postage	164,341	
Experts fees (auditors, interpreters, economists, etc.)	57,830	
Cantonal taxation	35,117	
Miscellaneous	174,685	
	5,596,010	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Monetary Agreement)	559,411	5,036,599
		29,064,716
The Board of Directors has decided that it is necessary to transfer		
to the provision for exceptional costs of administration	750,000	
to the provision for contingencies	13,000,000	13,750,000
NET PROFIT for the financial year ended 31st March 1960		15,314,716
Add: Balance brought forward from the preceding year		9,279,928
Total profits available		24,594,644

which the Board of Directors recommends to the Annual General Meeting called for 13th June 1960 should be dealt with as follows:

Transfer to the Legal Reserve Fund — 5% of 15,314,716	765,736	
Dividend of 37.50 gold francs, plus an amount of 42.50 gold francs which increases the distribution to 80.— gold francs per share and reduces the amount of the undeclared cumulative dividend from 369.47 gold francs to 326.97 gold francs per share		16,000,000
Balance to be carried forward		7,828,908
		24,594,644

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

Karl Blessing, Frankfurt a/M.

Dr. Rudolf Brinckmann, Hamburg

Jacques Brunet, Paris

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. Guido Carli, 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