

**BANK FOR  
INTERNATIONAL SETTLEMENTS**

**THIRTY-FIRST ANNUAL REPORT**

**1st APRIL 1960 — 31st MARCH 1961**

**BASLE**

**12th June 1961**

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# THIRTY-FIRST ANNUAL REPORT

submitted to the

ANNUAL GENERAL MEETING

of the

BANK FOR INTERNATIONAL SETTLEMENTS

held in

Basle on 12th June 1961.

Gentlemen,

I have the honour to submit herewith the Annual Report of the Bank for International Settlements for the thirty-first financial year, which began on 1st April 1960 and ended on 31st March 1961. Details of the results of the year's business operations are given in Part III, together with an analysis of the balance sheet as at 31st March 1961.

The accounts for the thirty-first financial year closed with a surplus of 27,324,105 gold francs, against 29,064,716 gold francs for the previous year. After deduction of 12,000,000 gold francs transferred to the provision for contingencies and of 350,000 gold francs transferred to the provision for exceptional costs of administration, the net profit amounted to 14,974,105 gold francs, compared with 15,314,716 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 results for the financial year 1960-61, the Board also proposes that, as an exceptional measure, a lump sum should be applied to the reduction of the amount of the undeclared cumulative dividend. This sum, which has been fixed at 7,000,000 gold francs, will represent an extraordinary distribution of 35 gold francs per share. The total distribution will thus amount this year to 72.50 gold francs, payable in Swiss francs in the amount of 103.60 Swiss francs per share.

Part I of this Report deals with the problems of economic and financial policy which confronted various western European countries and the United States in 1960 and the early months of 1961. In Part II a survey is made of developments in the fields of production, credit, prices, balances of payments, gold

and foreign exchange reserves and foreign exchange markets and of the working of the European Monetary Agreement. Part III describes the operations of the Bank and gives an account of the financial results for 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.



## PART I

### PROBLEMS OF ECONOMIC AND FINANCIAL POLICY IN 1960-61.

Developments in the spring of 1961 have brought a definite improvement in the economic and financial outlook.

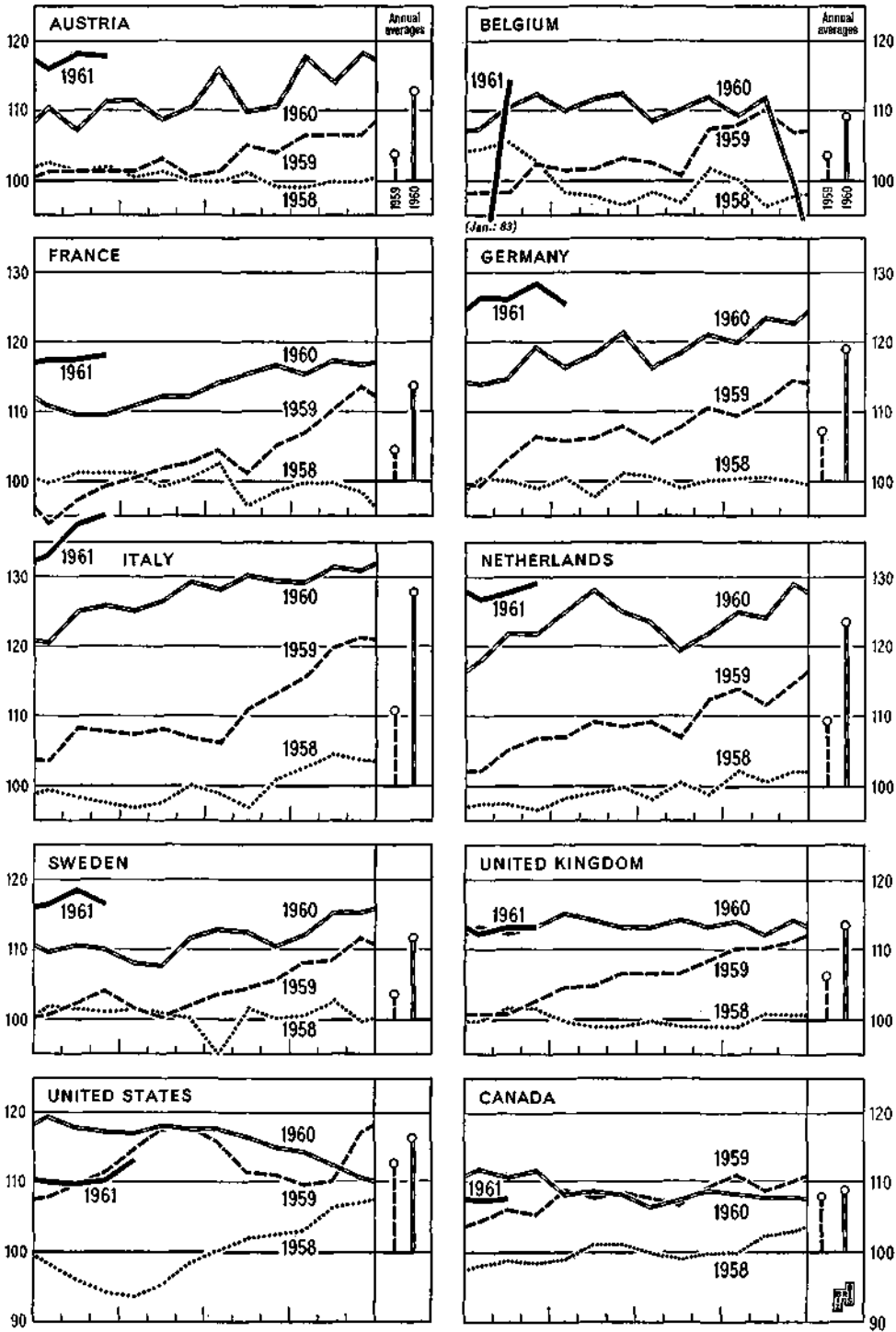
Most important, an upturn from the recession in the United States is under way and more determined policy measures have been taken to foster it. In western Europe the prospects are for continued growth, with perhaps less intensive demand pressure. In the raw-material-producing countries prospects are also promising for the months ahead. In 1960, with a few exceptions, their reserve positions did not deteriorate, any losses in exports to the United States having been fully offset by gains in those to Europe. Recovery in the former country and continued expansion in Europe have produced a firmer trend in raw-material prices and this, together with the likelihood of increased financial assistance, should contribute to more satisfactory development in these countries.

In eastern European countries industrial production appears to have risen more than had been planned and, although the targets set for 1961 represent everywhere lower rates of expansion than those achieved in 1960, growth is expected to continue, especially in the producer-goods sector. Progress in agriculture has been much slower and, so far, insufficient to absorb the effects of periodic unfavourable climatic conditions.

After the eruption of the gold market and the heavy pressure on the dollar from October 1960 to January 1961, and later the massive movement of funds within Europe following the revaluation of the Deutsche Mark and the guilder in March, the situation on international financial markets more recently has seemed comparatively calm. The substantial improvement in the U.S. trade balance, the recent steps by Germany and the United States aimed at a better balance in international payments, and the co-operative arrangements worked out among central banks for cushioning the impact of short-term fund movements have all contributed to this result. Consequently, although the atmosphere is not undisturbed, the outlook has been improved by an abatement of speculative pressures.

Despite these optimistic signs, however, there is a lingering belief that the difficult policy problems which confronted many western countries last year have not been finally resolved and that the present interlude must be used to sharpen the tools for dealing with them. Superficially, the situation over the past year resembled that of 1953-54, when the United States experienced a

**Industrial production.**  
Indexes (seasonally adjusted): 1958 = 100.



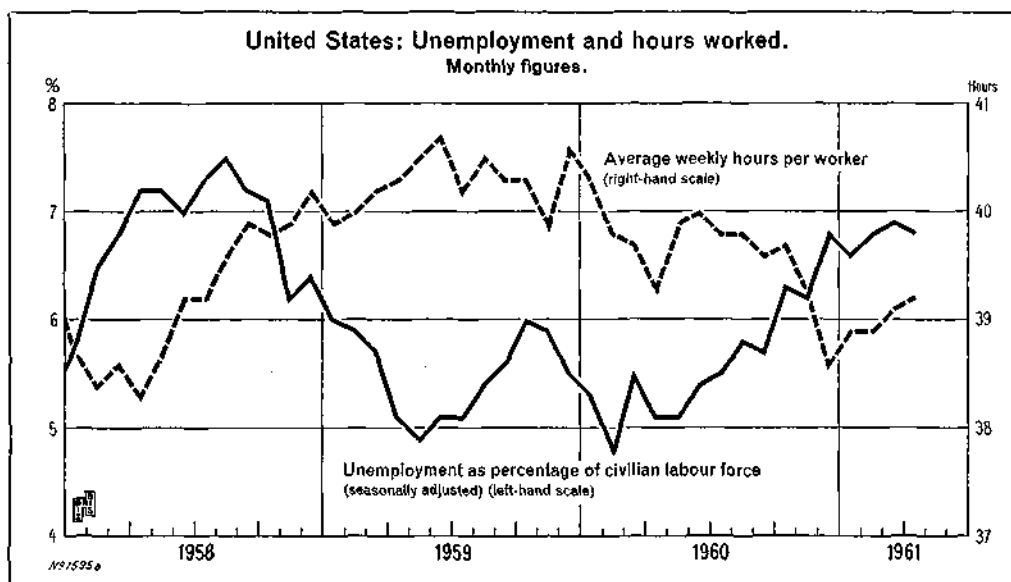
recession while Europe was in full expansion. Then, as now, the boom in Europe was little affected by the weakness across the Atlantic and demand from Europe even lent support to the U.S. economy. In most essentials, however, the situation in 1960 was new and different. The recession in the United States started well before the preceding expansion had brought the economy to a full-employment level of activity and the latent demand for motor-cars, consumer durables and housing that was present in 1954 was lacking. In addition, the United States in recession suffered substantial balance-of-payments difficulties, while booming Europe, with less unused capacity than in 1954, increased its reserves through a large surplus, augmented by an inflow of short-term capital. This conjuncture presented novel problems for stabilisation policy and, particularly in the United States and Germany, it must be said that the means used to treat them did not meet with unqualified success.

Several important policy requirements have been brought into prominence by developments in the international economy in 1960-61. But, as the situation and policies of the principal countries were not the same, they come out more particularly from study of the individual countries. Hence, it is appropriate in reviewing the past year to concentrate on the main and contrasting cases.

### **The United States.**

*The recession.* Now that the U.S. economy has turned upward, the question for the future is whether the expansion will be of a balanced character and whether it will carry on to full-employment levels of activity. The latter is not expected to happen in 1961, and doubts on both counts must remain because only an incomplete recovery was attained before the recent recession. As current policy is still in a state of flux, such doubts cannot be resolved at present. However, since the recovery will soon bring the economy back to its pre-recession position, it is relevant to examine the policy problems in some perspective. More particularly, one must ask why there was a recession and why it occurred when the economy was not fully using its productive potential.

It is necessary first to dispose of the confusing view that the basic difficulty has been an inadequate rate of growth. It is noted, for example, that real output increased at an annual rate of only 2.5 per cent. from 1953 to 1960. But one cannot measure the growth of the economy by comparing a year of very full employment like 1953 (when unemployment was only 2.7 per cent.) with a year of slack like 1960 (when it was 6.8 per cent.). For in such a case the rate of increase in output does not show clearly the growth of the economic potential but rather the lower utilisation of that potential. There has, on the contrary, been no evidence of lack of dynamism in the factors that indicate real growth. Capacity in both basic materials and finished manufactures has increased enormously and the new capacity is of high efficiency; automation has spread rapidly; more productive methods have been found in the distributive trades; and in various white-collar fields productivity



has been vastly raised by means of electronic equipment. In all these ways U.S. enterprise has shown no lack of initiative in adopting more efficient equipment and methods, in developing new products and in adapting to changing demand patterns. The existence of substantial unused resources today demonstrates that the capacity of the economy has, in fact, grown. Hence, the essential task of policy is to promote effective use of the larger existing potential by re-establishing full-employment levels of activity. When that happens, there is no reason to believe that the statistics will show growth to have been inadequate.

To turn to the recession itself, it is notable that it came unexpectedly. Predictions for the year 1960, made at the end of 1959, were unusually optimistic and it was believed that a great boom in the 1960s was about to start. But within a few months it was evident that these predictions were off the mark. While the turning-point has been fixed technically as May by U.S. observers, it was apparent earlier that the forward push had stopped; the decline in industrial production, in the length of the working week and in weekly earnings, as well as the fall of stock prices, disappointing motor-car sales and the easing of the money-market situation, all showed the weakness of the current demand situation.

At the beginning of 1960 government policy, both fiscal and monetary, was designed to exercise rather severe restraint on the economy in accordance with the general expectations of a boom. The aim of this restraint was to prevent a new outbreak of inflation, which might have occurred if an uninhibited boom psychology had been allowed to develop. And many signs had been pointing in this direction as the restraint was implemented: sensitive commodity prices had risen, inventory accumulation was very high, credit demand was at record levels and the steel strike had shown that a wage/price spiral was a distinct possibility. With a balance-of-payments deficit of menacing

United States: Changes in the gross national product and its components.

Items	1959		1960				1961
	1st half	2nd half	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
seasonally adjusted, in milliards of dollars at annual rates							
Private consumption . . .	6.7	3.0	3.7	5.7	- 0.7	2.5	- 2.0
Government purchases of goods and services . .	0.3	- 0.7	1.1	1.1	2.1	1.4	2.6
Gross fixed private investment . . . . .	3.5	- 0.6	1.7	2.3	-	- 1.2	- 3.5
Change in stocks . . . . .	4.3	- 3.4	6.7	- 6.1	- 4.7	- 3.6	- 1.5
Net exports of goods and services . . . . .	- 1.3	0.9	1.7	0.7	1.8	0.9	0.7
Gross national product	13.5	- 0.8	14.9	3.7	- 1.5	-	- 3.7

proportions, and the government and public opinion not yet prepared for positive measures to reduce it, it was necessary for policy to be directed to the inflation danger — even though there were still unused productive resources.

In seeking an orderly advance of business activity, the authorities were not trying to prevent expansion and, in fact, from the second quarter of 1958 to the second quarter of 1959 the gross national product had risen by 12 per cent. From then to the first quarter of 1960 the rise was less than 3 per cent., but during that time the disruption due to the steel strike was such that the real trend of the economy was almost impossible to fathom.

The basic objective of policy in this period was rather to foster sustainable growth. It has been generally understood that this concept means an expansion not accompanied by inflation, since it is considered that inflation, or even the expectation of inflation, leads to growth which is not sustainable — not least because of its effect on the balance of payments. There is, however, a further implication in the idea: to be sustainable, growth must proceed with the major categories of output advancing in an appropriate relationship to each other — even if there is no inflation threat in the picture. In real terms, if an exceptional volume of motor-cars is purchased in one year, then sales are bound to fall the next year; or, if two years' expansion of capacity requirements is crowded into one year, then there will be a let-up of investment demand the following year. This is a matter which is at the root of the business cycle, often seen in conjunction with over-accumulation of inventories. Besides inhibiting inflation, therefore, it may be taken that the whole policy of sustainable growth was meant to prevent booms of investment in consumer durables or plant and equipment of the kind that imply a subsequent period of slack.

In many ways this policy was successful; industrial prices were quite stable for a year or more before the recession, wage increases were generally not excessive and the rise in output of final goods was reasonably balanced. However, the policy was upset by the erratic movements of inventories induced by the steel strike. First, inventories were built up at a high rate in the second quarter of 1959 in anticipation of a steel strike; then, after they had

been drawn down during the strike, there was a new wave of accumulation in the first quarter of 1960. On both occasions the rate of inventory increase, at about \$11.5 milliard, was clearly not sustainable, and it seems apparent that the boom atmosphere on the earlier occasion was responsible for the optimistic expectations that led to the later wave of accumulation. In any case, the rate of inventory build-up declined sharply in the second quarter of 1960 and, while final expenditure was rising at that time, the weakness initiated by the inventory movement soon affected other elements of demand. Thus, it must be said that the economy moved into recession because of reduced inventory buying at a time when the expansion of final demand was not strong enough to counteract this deflationary factor. It is significant that construction activity, in particular, did not rise between the first and second quarters of 1960, owing to declining demand for housing.

*Anti-recession measures.* Industrial production was more or less on a plateau in the first half of 1960. As there was absence of normal growth, let alone some extra expansion to approach full utilisation of resources, this could be considered a recession phase of the business cycle. Taking all economic indicators together, however, May is considered the peak month of the cycle; thereafter there was a definite easing-off into recession.

By the time the downward drift was clear, the Administration was not in an enviable position. In the midst of a Presidential election, and facing an opposition Congress, it was hardly feasible from a political standpoint to set in motion the ponderous machinery for a re-examination of fiscal policy — should this have been considered desirable. An acceleration of Federal expenditure was initiated in the second half of 1960, but this had to be largely within the framework of the budget. Highway construction was also increased and some minor steps were taken to stimulate housing activity, which, however, declined. Thus, the main responsibility for anti-recession action devolved upon monetary policy.

As the weakness of the economy became clear, the policy of the Federal Reserve System shifted from restraint to monetary ease. With hesitation at first, but more aggressively in the late spring and summer, open-market operations were directed to increasing total bank reserves, and the process was continued as the year went on. This action was supplemented by reductions of reserve requirements against demand deposits in September and December, by a lowering of margin requirements on securities in July and by decisions in August and November authorising banks to count their vault cash as reserves. Interest rates began to decline early in the year and the movement was reinforced by the various measures taken; the Treasury bill rate fell from a peak of 4.60 per cent. at the start of the year to below 3 per cent. in April and to just above 2 per cent. in August, while the prime rate on bank loans was reduced from 5 to 4½ per cent. in August. To keep in line with the market, Federal Reserve discount rates were reduced from 4 to 3½ per cent. in June and to 3 per cent. in the late summer. Rates on mortgages and yields on corporate bonds were slow to respond.



\* Excess reserves minus borrowing at Federal Reserve banks.

It has been argued that monetary restraint was maintained too long in the first few months of 1960. This is difficult to insist upon in view of the fact that money-market conditions became distinctly easier early in the year. Lower interest rates on mortgage credit would, no doubt, have been desirable, with the chance that housing might have had a firmer trend. What stands out in general, however, is a shortage not of funds but of borrowers. While the monetary policy has not lacked critics, the criticism has not been convincing, as it does not really face up to the inflation and balance-of-payments problems.

However this may be, the crucial problems of stabilisation policy do not lie in niceties of timing of corrective measures but in sufficiently flexible use of stabilisation instruments when the need for them is abundantly clear. In this respect, monetary policy was flexible; the difficulty was that it was not feasible for fiscal policy to be similarly flexible.

The effect of fiscal policy can be appreciated from the fact that the surplus of the Federal Government (on a national accounts basis) was above \$5 milliard in the first half of 1960, whereas there had been a deficit of \$9.3 milliard in 1958. This turn-around of about \$15 milliard over a year and a half had occurred with government expenditure nearly constant because of the substantial increase in receipts that came from rising incomes and business activity. A surplus of this size already constituted a significant drag on the economy and the restraint it imposed on further expansion would have grown rapidly if business expansion had continued. For example, if economic activity had grown to full-employment levels in the second half of 1960, the Federal surplus would have risen to a rate of almost \$10 milliard. As business and personal saving would also have risen sharply under these conditions, it would have taken very strong investment and export demand to

utilise the total savings of the economy as activity moved upward. Naturally, without a large rise in exports the external deficit would also have been substantially higher.

Of course, had the boom that was anticipated at the start of the year materialised, the growing government saving could have been absorbed. There might, for example, have been strong demand for motor-cars and other consumer durables and for housing, more or less on the 1955 pattern. The effect would have been to reduce personal saving by exceptional use of consumer credit facilities and other net use of savings, on the one hand, and to draw a large volume of savings into mortgage credit, on the other. Alternatively, there might have been strong demand for business plant and equipment as in 1956. The effect of this, taking a reasonable inventory increase into account, would have been to utilise fully corporate savings and depreciation allowances and to draw upon government and personal savings. However, as the implicit budget surplus at full use of resources was much larger than in 1955 and 1956 and as the economy in 1960 had three years' more growth of productive resources behind it, such investment demands would have had to be much larger to generate a full-employment level of output. They would thus have been less sustainable than those of 1955-56.

There is another alternative which could have continued the expansion that does not depend upon a strong boom, namely, lower prices. This could be effective in generating higher output if it were to occur without impairing disposable income (through a fall in wages) and thus without inducing a deflationary spiral. Such a price decline would have a double effect. On the one hand, it would lower the full-employment level of business saving and, by a fall in taxes, government saving — thereby reducing the size of the investment boom needed. On the other hand, it would mean an increase in real consumption demand for the given flow of final expenditure. Some margin for an adjustment of this sort may have existed at the beginning of 1960, after the wage/price inflation of the preceding years, and some has probably taken place under the pressure of the recession. But it is an adjustment that can hardly be expected to occur during the expansion phase of the business cycle — before profits have reached a comfortable level. It is more likely to take place gradually when high, but not excessive, utilisation of resources is maintained for an extended period of time.

However that may be, it was evident after mid-1960 that final demand was not strong enough to keep the economy on an upward trend, so that a restraining fiscal policy was no longer appropriate. It should be noted that the implicit restraining effect of the budget came about by slow accretion rather than by a new active policy. There was no substantial change in tax rates for a number of years, so that the degree of restraint grew as the economy expanded simply because of the progressivity of the tax system. The inflation of incomes that took place after 1954 was particularly important in this process of raising tax receipts, though the full force of its impact was lightened because government expenditure was also rising. It is doubtful whether any western industrial economy can utilise such a relatively large budget surplus



under present-day circumstances unless at the same time there is a large external surplus which draws off a part of total saving. The reasons for this are that pent-up demand for consumer durables is no longer a very strong force and business investment is so largely financed by business saving that large overall saving through the budget is not needed in the economy to help finance total private investment.

*The dilemma of monetary policy.* As monetary policy was eased to stimulate the economy, a new problem arose. This came about because a gap developed between the rising interest rates in the principal money markets in Europe and the declining rates in New York; there was in consequence a substantial outflow of short-term funds from the United States. The outflow was increased because of fear that the dollar might be devalued after the election, and heavy buying of gold on the London market in October raised the price substantially above the official U.S. selling price. Hence, the authorities were faced with a sharp conflict in monetary policy between the needs of the internal business situation and external considerations.

One cannot say there is an orthodox way of dealing with this dilemma, because a situation of internal recession with a basic balance-of-payments deficit is itself not common. It would seem most appropriate to direct monetary measures to the external problem by keeping the gap in money-market rates as narrow as required and to secure the stimulus to the economy through either a cut in tax rates or an increase in government expenditure. Such fiscal flexibility was not available. Hence, the Administration sought, as was desirable anyway, various direct actions at home and abroad to reduce the balance-of-payments disequilibrium, and the Federal Reserve System began a change in policy to reduce downward pressure on short-term interest rates. The releasing of vault cash to reserves was done partly with this in mind, as it helped to avoid the purchasing of bills for seasonal needs. Furthermore, open-market operations were begun in short-term securities other than Treasury bills, likewise in order to lessen pressure on the bill rate. It may be noted also that no further action was taken to reduce discount rates, though this might have been expected in view of the lower level of market rates. All these were, in a sense, holding operations while the policy intentions of the new Administration were awaited.

*The new Administration's policy approach.* At the beginning of 1961 a new Administration fell heir to the problems of the U.S. economy, with the advantages of a fresh start and the absence of an election campaign in its favour. Significant also was its belief in stronger use of governmental measures to manage the economy. Although the government has attacked its tasks vigorously and supported the objectives of high employment and more rapid expansion, its programme is still in process of formulation, so that it is too early to assess its possible impact. However, the general strategy of policy so far is reasonably clear. This is to provide some impetus to demand through the budget, on the one hand, and some stimulus to investment through lower long-term interest rates and tax incentives, on the other.

Budgetary readjustment has been sought up to now by means of increased expenditure. So far as immediate results are concerned, these are being obtained primarily by various anti-recessionary measures, including emergency unemployment compensation, aid to depressed areas and larger agricultural subsidies, and by expanded social programmes in education and housing, as well as higher defence expenditure. It is estimated that the increase in expenditure in the fiscal year 1961-62 will be about \$3 milliard. The Administration has not proposed a tax reduction up to May 1961, and the changes in the tax system proposed are aimed at reform and incentives rather than at raising disposable income.

Thus the government's fiscal programme for 1961-62 appears far from extreme and probably extends little beyond what the previous Administration might have been led to as the recession deepened. It has helped to bring about an upturn in economic activity, although in this it has been greatly assisted by the petering-out of inventory liquidation. There is, however, little expectation of a rapid decline of unemployment.

In attempting to use fiscal policy with sufficient flexibility, the government is confronted with attitudes that are difficult to overcome. Borrowing by the Federal Government for investment purposes is widely considered as unsound as borrowing for current outlays — even though it is quite normal for state and local governments by means of tax-exempt securities. There is not, accordingly, the flexibility that some European governments have to vary investment outlays according to the needs of the economic situation. At the same time, while a deficit in the overall Federal budget is thought to be inflationary, or potentially so, a ceiling of  $4\frac{1}{4}$  per cent. on long-term government securities is maintained by law. Although recent legal opinion suggests that some flexibility may be obtained by issuing securities below par, the ceiling may continue at times to obstruct the long-term financing of government investment. With these handicaps, it is difficult to adjust fiscal policy to the changing circumstances that arise in maintaining an economic climate conducive to high employment, sustainable growth and financial stability. Furthermore, a responsibility is placed on monetary policy which is unsuited to it and adequate direction of monetary policy towards the external payments situation encounters confusing cross-winds.

It is this latter consideration that has led to a basic change in monetary management. Confronted with the necessity of keeping short-term interest rates high enough to discourage capital outflow and the desirability of lower long-term rates to encourage domestic investment, the Federal Reserve System has shifted from its preference for Treasury bills in its open-market operations to the inclusion of longer-term securities. This experimental policy is intended not as outright support of the government bond market but as a means of overcoming the "stickiness" of long-term interest rates while avoiding pressure on short-term rates. It is rather early for a definite judgement on the success of this move, as various market forces have been at work.

Prima facie, it would seem a policy from which one should not expect too much. The danger is, of course, that as the gap between short and

long-term rates narrows funds will be diverted from the long-term market while investors are awaiting developments. There is, in fact, some contradiction in the hope that investors of funds will enter into long-term commitments under conditions of depressed investment demand, when the Administration's firm objective is to change those conditions rapidly. A further element needed is a belief in the continuance of lower long-term rates so as to avoid any prospect of losses in capital values. The U.S. economy does generate a volume of savings which should make this possible, but, as European experience shows, what is necessary, in addition, is both to create an expectation of stable prices and to put the balance of payments on a solid footing.

Of these two problems, that of the balance of payments is discussed at the end of this chapter. With regard to price inflation, the immediate danger is not one which arises from the pressure of excessive demand but one which comes from the tendency in the U.S. economy for labour groups and management to push up wages and prices through the exercise of market power before the recovery in activity approaches a full-employment level. The Administration has set up an Advisory Committee on Labor-Management Policy to help avoid this danger. It is accepted that a moderate rise in the price level may occur as the economy moves from recession to prosperity through the effect of higher demand on sensitive prices. For the bulk of manufactured goods and services, however, there must be a tendency for prices to decline in the high-productivity industries if reasonable price stability is to be achieved. It is hoped that better understanding of this requirement as a result of the Committee's work will encourage attitudes which will prevent abortive struggles over the division of an underdone pie from obstructing the Administration's efforts to serve the nation a pie that is reasonably well baked. Success in this sphere is needed not only from the standpoint of full employment and price stability but for reasons of balance-of-payments equilibrium as well.

### **Germany.**

*The boom.* The economic and financial situation in Germany over the past year has presented a striking contrast to that of the United States. All the same economic indicators were involved in both cases but, as it were, with signs reversed. Production rose instead of falling, manpower was very scarce instead of in surplus, there was excessive demand in place of demand slackness, the balance of payments was in strong surplus instead of in deficit and there was a large inflow of capital rather than an outflow. It is not surprising, therefore, that the two situations confronted policy-makers with similar sorts of problems, though again with signs reversed. And also in Germany reluctance to call upon other policy instruments with sufficient flexibility faced monetary policy with a dilemma and aggravated the international payments problem.

The critical point in the German boom came at about the beginning of the fourth quarter of 1959, when demand was clearly moving into excess. None the less, the expansion of output proceeded at a rapid pace over the



subsequent months, with a rise in industrial production from the autumn of 1959 to the spring of 1961 of nearly 16 per cent. The pressure on resources was indicated by the very low and declining volume of unemployment, the widening gap between unemployment and job vacancies and the tendency for the working week to lengthen against the longer-term trend towards shorter hours. In this overheated climate workers were attracted from abroad, more women entered the labour force and there were very large productivity gains. The rise in production, in fact, was limited by the very tight labour situation and lack of spare capacity, as unfilled orders were continuously at high levels. Hence, there was upward pressure on industrial prices and building costs, and very large increases in wages. In addition, imports rose by almost 20 per cent. over the period, even though the 1960 harvest was exceptionally good.

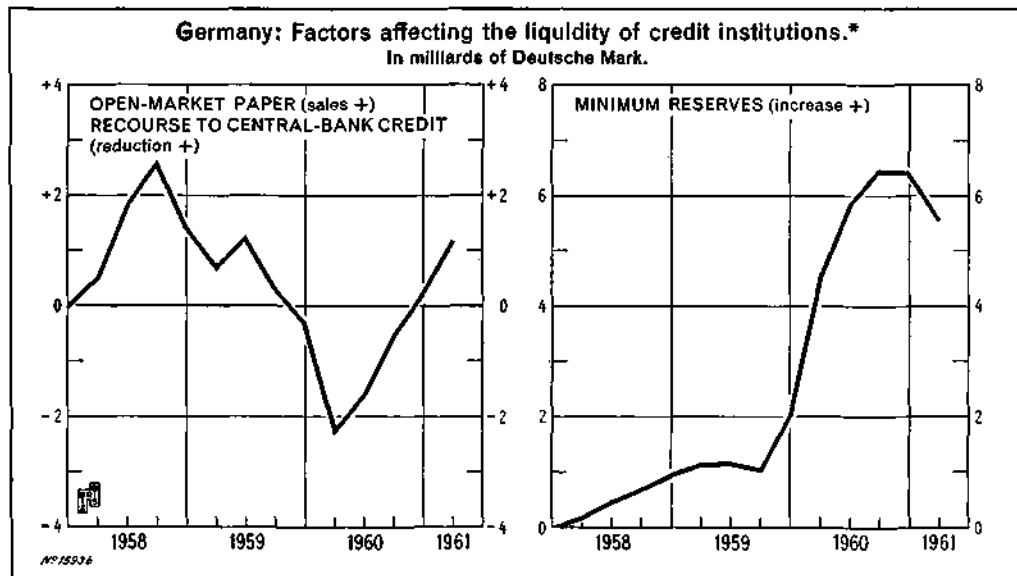
The major factor in the demand expansion was soaring business fixed investment. For the year 1960 business construction was over 20 per cent. higher than in the previous year and equipment purchases almost 18 per cent. higher. Residential building outlays expanded by 9 per cent. above the high level of 1959, largely because of rising costs; the industry produced 550,000 housing units — somewhat less than the previous year. But, in a sense, export demand has been the key to the boom, not only because of its direct effect on output but because it provided the motive for part of the increase in investment; exports rose by 20 per cent. from the autumn of 1959 to the spring of 1961 under the stimulus of Germany's highly favourable competitive position.

Thus, the German authorities were faced with two principal problems in the late months of 1959. First was the persistent balance-of-payments surplus, which in 1959 had been alleviated by both government and private capital exports. Second was the growing threat of price inflation arising from strongly excessive overall demand. The relation between the two was that

the curbing of domestic demand would tend to perpetuate the export surplus, and with it the steady stream of liquidity to the banking system on which credit expansion could feed. In essence, the policy adopted with respect to these problems was to await developments vis-à-vis the balance of payments, to take a rather passive attitude in fiscal policy and to attack excess demand and the inflow of liquidity by monetary measures.

Restraint of the boom through changes in budgetary operations was not planned for in the course of 1960. In fact, public expenditure increased by about the same percentage as aggregate demand for goods and services, particularly because of a rise in defence expenditure. Tax revenues exceeded expectations, however, owing to the marked rise in economic activity. Revenues of the Federal Government and the Länder rose by DM 9 milliard, or 19 per cent., and contributed to a marked increase in government saving (including the Equalisation of Burdens Fund and the social insurance institutions) from DM 16.9 milliard in 1959 to 22.3 milliard in 1960. Besides being used for public investment, this saving is employed directly and indirectly to help finance private investment, particularly housing, to make public foreign investments and to accumulate liquid assets. In 1960 some restraint on the economy was created as the public authorities, particularly the Länder, used excess accruals of funds to build up deposits with the central bank. On the other hand, the public authorities partly stimulated demand, especially after the middle of 1960, by making larger grants of official loans and interest subsidies for house-building. At a time when there was a strong investment boom, only minor steps were taken to reduce the varied and substantial government incentives to housing construction as well as to other types of investment outlays.

*Monetary policy.* Thus, the task of active restraint was left to monetary measures. Policy was oriented at first primarily to slowing down demand pressures, when in the late months of 1959 the Bundesbank's discount rate was raised to 4 per cent. and minimum reserve requirements were increased. In the first five months of 1960, with money-market rates in the United States declining, the discount rate was kept constant, but further restraint was applied by three increases in reserve requirements and a reduction in rediscount quotas. These measures did not impose great real restraint because they had the effect of inducing banks to recall short-term investments from abroad to meet their domestic needs. By June the authorities felt that an increase in the discount rate could no longer be postponed and raised it to 5 per cent. However, they attempted to mitigate international repercussions by prohibiting the payment of interest on foreign sight and time deposits and forbidding the sale of money-market paper to foreigners. At the same time, reserve requirements were further increased and other measures taken to reduce bank liquidity. In August, moreover, with an eye towards both the external and the domestic situation, a special premium for dollar swap transactions by German banks was introduced, while certain measures intended to sterilise excess liquid funds held by the credit institutions were continued.



\* Cumulative since January 1958. Left-hand graph shows combined effect of central-bank open-market operations and credit transactions.

It was not long thereafter, however, that two shortcomings of this monetary policy became evident. First, domestic credit restraint was not effectively attained, since German firms increasingly shifted from domestic sources of credit, at relatively high interest rates, to those in low interest rate centres abroad. It is interesting also that there was a shift to greater use of interest subsidies on housing (with more borrowing from the market) in place of direct government loans at low interest. Secondly, credit restraint was having adverse effects upon the international payments mechanism by stimulating the inflow of foreign (and a reflux of domestic) capital. In addition to the direct takings of credit abroad, this influx took the form of foreign purchases on the capital market in search of high yields and capital gains and an acceleration of export receipts and retardation of import payments. It is estimated that the total credit received from abroad by the German economy in 1960 amounted to DM 5.5 milliard.

Thus, the restraining net of monetary policy did not appear to be very effective in curbing excess demand because, with convertibility, the holes in the net were too large. The boom seemed to go to the physical limits of the economy. While prices rose, it cannot be said they got out of hand — as was indeed unlikely with the government budget not actively contributing to inflation, with imports liberalised and with German firms able and prepared to offset a major part of wage increases by productivity gains.

Under these conditions in late 1960 and early 1961, the monetary authorities began to move in the reverse direction, reducing the discount rate from 5 to 4 per cent. in November and again to 3½ per cent. in January 1961, and on both occasions making small reductions in reserve requirements. Also, however, the premium on dollar swap transactions was discontinued. Given the authorities' concern for possible inflationary consequences, caution

was not relaxed and the internal aim of dampening the boom was not changed. Greater fiscal restraint, which would have permitted a basic change in monetary policy and markedly lower interest rates to encourage net capital outflow, was not called upon. But the government did undertake more direct actions with respect to the balance-of-payments surplus.

In the end, therefore, it may be said that the authorities could use three kinds of actions, which were not mutually exclusive: first, to permit credit expansion and rising demand to "absorb" the balance-of-payments surplus by higher imports, relatively lower exports and exports of private capital — perhaps with some attendant increase in the cost/price level; secondly, to revalue the Deutsche Mark as a prerequisite to an easier internal credit policy without cost/price increases; and, thirdly, to undertake government foreign aid and lending to help compensate the export surplus, financed so as to avoid aggravating the export surplus itself. A combination of these three methods was the approach decided upon. The Deutsche Mark was revalued by 5 per cent. as from 6th March 1961, and this was followed by a slight further lowering of reserve requirements. As regards government capital exports, Germany decided to make large advance repayments of foreign debt and to assume larger and more permanent commitments in the field of aid to underdeveloped countries. Finally, rising domestic and export prices, while not an object of policy, have nevertheless under existing boom conditions helped to reduce international price disparities.

While its immediate effect was to draw in short-term funds, the revaluation of the Deutsche Mark was, in itself, a step that should contribute to better international balance. But final success of the present policy is dependent upon creating sufficient monetary ease to bring a substantial decline in market interest rates and a renewal of private capital exports. For this reason the central bank has moved towards further monetary relaxation, including reduction of the discount rate to 3 per cent. early in May. Interest rates have declined and it is hoped that export of capital through the market may soon be feasible.

### **Italy.**

*The rules of the game.* It seems reasonable to suppose that a rather different policy approach to the problems in Germany would have yielded better results. But this is difficult to prove, as a controlled experiment is not possible. The best that can be done is to compare the experiences of other countries. Several continental countries were faced with the same problems, namely, boom and balance-of-payments surplus, and they tried different means for resolving them.

By the end of 1959 Italy was in a full boom, following the sharp expansion in the second half of the year. The real impetus came from exports, which were 25 per cent. higher in the second half of 1959 than in the first half. But other categories of demand had also risen sharply. As a

result there was a steep increase in industrial production and not only shortage of skilled labour but tightness of unskilled labour in some industrial areas — a new phenomenon for Italy. Also, the balance of payments was in heavy surplus and official reserves had risen by almost \$1 milliard during the year.

Thus, the authorities had to decide whether policy should be oriented towards dampening the boom or reducing the extreme external surplus. They decided to give the boom its head. Of course, the external surplus itself made such a policy possible. In addition, prices were stable, wage increases did not outrun productivity gains, there was still considerable structural unemployment in southern Italy and production had shown substantial elasticity. Having further liberalised imports, the authorities counted on expanding output and a rise in imports to meet increases in demand without serious inflationary consequences.

The policy for 1960 was, therefore, one of no restraint by either fiscal or monetary measures. In the fiscal field the intention was for government expenditure to increase quite strongly, particularly public investment outlays. This was designed to help make productive use of the balance-of-payments surplus, as it was considered that Italy was not rich enough to put so much of its savings into increased reserves. In the event, government investment plans were delayed by administrative difficulties, so that budget expenditure on current and investment account rose by only 6.6 per cent. As revenues increased by 13 per cent. because of the expansion of economic activity, fiscal operations were not a stimulating factor on balance.

The policy of no restraint in the monetary field was implemented in practice by "playing the rules of the game". This phrase, recalling the old gold standard days, means that the flow of funds to the banking system from the balance-of-payments surplus was allowed to enter banks' resources and thereby provide the base for credit expansion to finance investment and increase employment. Bank credit expansion and its consequences were left to market forces. Free play was thereby given to demand forces in 1960, which turned out to be strong. Though they levelled off after the beginning of the year, exports remained very high, averaging about 25 per cent. above their 1959 figure. Business investment demand for both plant and equipment rose steeply, however, far more than offsetting the easing in house-building. Thus, bank credit expanded by 21 per cent. and new private capital issues were 70 per cent. higher than in 1959. Despite the surging demand for credit and capital funds, interest rates maintained their downward trend.

This conjuncture produced results that were favourable both internally and externally. Throughout 1960 and the spring of 1961 industrial production continued to expand; the rise since the beginning of 1960 has been at a rate of about 10 per cent., while the aggregate for 1960 was 15 per cent. above the 1959 level. There was, in addition, a large spill-over of demand into imports, which cut the balance-of-payments surplus by half. Imports rose steeply in the first half of the year and continued to increase, though more



slowly, in the following months. For the year 1960 imports were 40 per cent. higher, partly because of the bad harvest, while the external surplus on current account declined from \$756 million in 1959 to \$346 million in 1960, despite the rise in exports and in invisible earnings. With the huge increase in supplies from both production and imports, wholesale prices remained steady; the moderate rise in consumer prices was due to the increases in controlled rents and the effects of the poor harvest.

Official reserves increased by \$127 million in 1960 and decreased by \$133 million by the end of April 1961. To utilise the rest of the balance-of-payments surplus the central bank initiated a policy of selling foreign exchange to the banks, to be used for balancing their external position; the banks were left free to reduce their foreign liabilities or to increase their foreign assets according to their business needs.

These developments in the Italian economy in 1960 have continued into the spring of 1961. The prospects are for further growth in the rest of the year, although, exports having levelled off, a less rapid expansion is anticipated.

### **The Netherlands.**

*Multiple restraint.* The large reserve of unemployed labour in Italy distinguishes the Italian situation from that of other countries with both internal boom and external surplus. It was the *raison d'être* of the policy of no restraint as it made such a policy both justifiable and feasible. It may be noted, however, that the rise in industrial employment in Italy under the stimulus of the boom was not very exceptional. From the fourth quarter of 1959 to the same period a year later industrial employment in Italy increased by 5.5 per cent., while in Germany the rise was 4.1 per cent., in Switzerland 6.8 per cent. and in the Netherlands only 2.7 per cent. It would appear, therefore, that the need for demand restraint is related not only to the tightness of the labour supply but also to the reaction that might be expected of wages and prices to demand pressures. These considerations greatly influenced the policy of restraint followed in the Netherlands, where demand pressure has been very strong and there was consequently a need to prevent overstrain and inflation.

The boom in the Netherlands began in 1959, particularly in the second half of the year, when there was a sharp expansion in demand, and it has continued up to the present time. The dynamic factors behind it have been export demand and fixed investment; exports of goods and services increased (at current prices) by 10.7 per cent. in 1959 and 10.1 per cent. in 1960, while investment outlays rose by 16.3 per cent. and 20.5 per cent. in the two years. Job vacancies started to exceed unemployment shortly after mid-1959, with a widening gap as time went on, and buoyant exports led to a substantial balance-of-payments surplus, which was not considered desirable. The authorities thus had the double problem of exercising restraint while also reducing the external surplus. One may say that they chose a middle course; this was

to allow some upward drift of wage costs and prices, considered to be an essential part of the equilibrating mechanism vis-à-vis the balance of payments, but at the same time to prevent wage and price movements from getting out of hand.

This objective was pursued by means of a variety of instruments. In fiscal policy, budget expenditure was reduced in 1959 while the rise in economic activity was bringing in more revenue, so that the substantial deficit of 1958 was turned into a moderate surplus. The budget surplus was increased in 1960 as tax revenues increased more than expenditure. This process was furthered by a reduction of the fiscal incentives to investment for the purpose of dampening the investment boom and of reducing liquidity by way of an increase in effective taxation. In addition, the building licensing powers were used to limit the pressure on the construction industry, and in September 1960 restrictions were placed on the use of consumer credit.

Coincidentally with these restraining measures, the government revised its wage-determining methods for the purpose of allowing more flexibility in the upward adjustment of wages to increased productivity. As a result, wage rates rose sharply in the second half of 1959 and the first third of 1960; the increase in the level of wage rates of more than 10 per cent. in a period of nine months was in the direction sought, but probably larger than anticipated. The rise in wages was partly to compensate for a 20 per cent. increase in controlled rents and a reduction in the subsidy on milk. But at the same time wage/price policy in general was directed to limiting wage increases to productivity gains and to preventing wage increases that would raise domestic prices. In the event, the rise in the cost of living was about equal to that caused by the rent and milk actions, but so favourable an outcome was achieved only because it proved possible to increase production much more than had been expected.

Since the banking system was disposing of foreign exchange holdings to meet the demand for credit, and since bank liquidity was being fed by the balance-of-payments surplus (through the sale of foreign exchange to the central bank), monetary measures were needed to avoid excess liquidity of credit institutions. This was accomplished mainly by debt-management operations. The local authorities, as in 1959, continued to fund their short-term debt, while the central government borrowed in the long-term market, even though it had no need for the funds. In all, the reduction in short-term debt and the increase in government deposits sterilised with the central bank amounted to Fl. 1,250 million.

The success of this several-pronged attack in keeping the boom under control left the central bank free to adjust its policy to the needs of the international payments situation. Early in the boom the bank authorities had considered that open-market operations and discount policy would be inadequate to limit the expansion of credit sufficiently in the face of a large inflow of foreign exchange. They therefore reached an agreement with the banks in the spring of 1960 whereby the latter would be required to place interest-free

deposits at the central bank if credit were extended beyond acceptable limits. With this power in reserve, which did not have to be called upon, the discount rate has been held at the 3½ per cent. level fixed in November 1959 and open-market operations have been conducted so as to secure a decline in money-market rates, the purpose of these measures being to discourage an inflow of foreign short-term funds and to encourage an outflow of domestic funds.

As a whole, the economic and financial policy of the Netherlands may be said to have produced two results — given the market forces at home and abroad. The first has been a very substantial increase in output that was accomplished without significant inflationary side-effects. Industrial production rose by 12.5 per cent. from the fourth quarter of 1959 to the first quarter of 1961 and the gross national product increased by 7.8 per cent. in volume between 1959 and 1960. The second, however, has been that only a limited reduction was obtained in the external surplus on current account. Imports rose somewhat more than exports, so that the current surplus on a transactions basis declined from Fl. 1,800 million in 1959 to Fl. 1,150 million in 1960. While there were substantial long-term capital exports from the Netherlands, there was also a very large inflow of capital, in the form, in particular, of foreign purchases of Dutch equity securities, the net inflow of short-term funds having been rather small.

It may be said, therefore, that restraint of the boom had the effect of maintaining the balance-of-payments surplus; although the surplus did not increase as in Germany and there was little inflow of funds, there was not a large change in the direction of external equilibrium, as in Italy. The continuing surplus position provided the rationale for two policy decisions taken in the first quarter of 1961. The authorities decided to follow the revaluation of the Deutsche Mark by a similar revaluation of the guilder. They considered that Dutch costs and prices would be brought into better alignment with costs and prices abroad by this move and they believed that without it the external surplus would be aggravated, in view of the large proportion of the country's trade that is transacted with Germany. In addition, they took steps to allow greater freedom for the flotation of foreign loans on the Dutch capital market.

### **Switzerland.**

*Capital exports.* Switzerland is another country that has been confronted with very intense pressure from overall demand and a marked balance-of-payments surplus. As the export of funds is a traditional activity, policy has been oriented to facilitate capital exports as a principal means of securing balance in external payments. To limit internal inflationary pressures, the authorities have relied to a large degree on the checks of an open economy.

From the standpoint of the labour market, the boom in Switzerland has been the most intense in western Europe and for any other country the

situation would have to be described as one of severely excessive demand. Unemployment has been negligible, while unfilled vacancies have been hovering close to 7,000; however, wage increases have been held to reasonable limits by the free import of labour and by the recognition by industrial management and labour of the need to keep Swiss products competitive. Low tariffs and heavy dependence on export markets both reinforce this need. Hence, the tendency for prices to rise has been moderate.

The dynamic factors in the boom have been heavy export demand and a sharp increase in building activity, particularly house-building. These started to rise early in 1959 and have maintained an upward impetus in the two following years. By the spring of 1959 the economy was already booming and the authorities had to fix a line of policy which they thought would be maintainable. As the current balance of payments was in strong surplus and as official reserves were rising sharply, they considered that the balance-of-payments situation had to be given primary consideration.

The means of doing this was essentially to maintain easy money-market conditions. There was a large inflow of foreign exchange from the external surplus and a corresponding rise in the money supply. The central bank did not impose restrictive measures on the expansion of credit which followed and did not raise the discount rate from its low level of 2 per cent. On the other hand, it did authorise a larger volume of foreign capital issues on the Swiss market, which were readily placed because of the low interest rates that prevailed. The result was that in the first half of 1960 funds were withdrawn from the internal market and that there was a substantial decline in foreign exchange reserves. This policy of low interest rates and no restraint on credit expansion was continued until the summer of 1960. Early in 1960 there was some tendency for interest rates to tighten but the monetary authorities advised the banks not to raise the rates on savings bonds, as they considered the minor strain on the market to be temporary.

The policy of the government authorities has been directed to limiting the boom by sterilising a large part of rising tax revenues and not repaying short-term loans, although there were ample funds for doing so. However, the main brake on pressure from internal demand (apart from the use of foreign labour) has been sharply rising imports. Imports have increased much more than exports, thereby not only meeting internal demand requirements but also reducing the current external surplus.

In the summer of 1960, the Swiss authorities were faced with a new problem, as first the conflict in the Congo and then the weakness of the dollar brought a flood of funds into the country, despite very low interest rates. In the second half of the year the currency reserves rose by almost Sw.fcs. 2 milliard. In an effort to discourage this inflow, the central bank reached a gentleman's agreement with the banks whereby new foreign sight deposits would not be accepted and time deposits would not receive interest; in addition, new deposits for a period of less than six months were subjected to a charge of 1 per cent. a year. The banks also undertook to avoid using

foreign funds for the purchase of Swiss securities, real estate and mortgages. Although this action surely discouraged the inflow of funds, the flow was very large in any case until it quieted down early in 1961. The central bank also sold a large volume of short-term government securities in the second half of 1960 to take up some of the excess liquidity.

Switzerland was again the recipient of a very large volume of funds from abroad when the Deutsche Mark and florin were revalued in March 1961. The authorities quickly stated that the Swiss franc would not be revalued in view of the fact that the basic balance-of-payments position was not one of substantial surplus. While foreign exchange reserves increased by very large amounts, there was little the authorities could do about it except wait for speculative fervour to subside. It must be concluded that stabilisation policy throughout the boom yielded good results so far as internal expansion and reasonable financial stability are concerned and that its external effects were those of a "good creditor policy".

### **The United Kingdom.**

*Longer-term problems.* The economic situation of the United Kingdom presents a case apart from that of many continental countries; there have not been boom conditions caused by strong excessive demand and there has not been a problem of balance-of-payments surplus. It is a case apart, also, from that of the United States; while external payments on current and long-term capital account have been in deficit, unemployment has been very low and economic activity has not been in recession. Production has been on a high plateau, which continued in the first quarter of 1961, and an upward trend seems to be developing.

Thus, financial policy has not been faced with the conflicts encountered in some other countries. Over the past two years the usual instruments of fiscal and monetary policy have fairly well produced the results to be expected of them — although experience may suggest improvements in the timing and pattern of policy changes. Following the recession of 1958, a strong impulse was given to demand by tax reductions, increased public investment outlays and the removal of consumer-credit restrictions. These measures produced a sharp expansion of output up to the end of the first quarter of 1960. By this time there was a danger of over-full use of resources, and policy was shifted from stimulus to restraint.

This shift was implemented by renewal of consumer-credit restrictions, by initiating special deposits from the banks with the Bank of England, by two increases in the discount rate and by a levelling-off of public investment. As a consequence, industrial output was fairly stable after the first quarter and even eased a little by the fourth quarter, owing to the lower demand for motor-cars and other consumer durables. The upward trend of imports became more moderate and the rate of inventory increase stopped rising, although accumulation remained high in the second half of 1960.

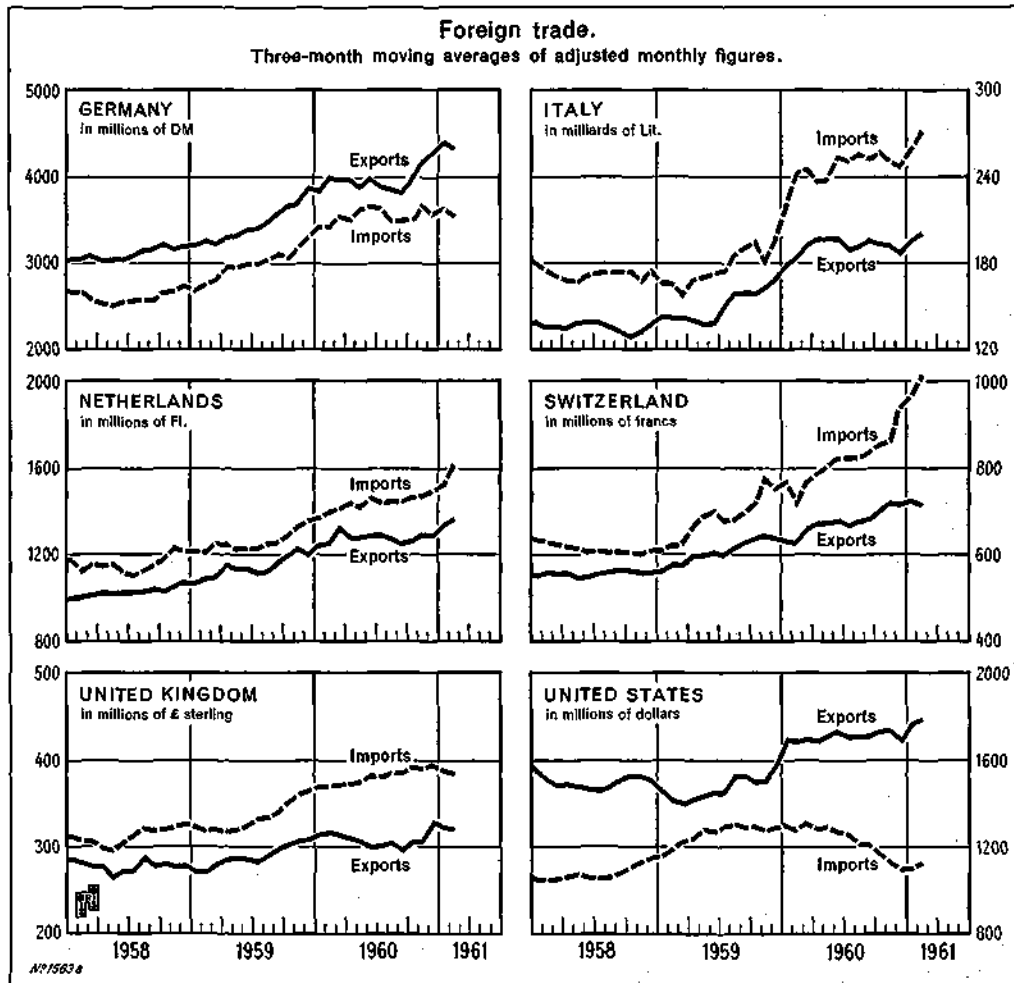
As a higher level of investment was a continuing objective, investment allowances were not curtailed as a restraining measure. Despite higher interest rates, private fixed investment continued its marked expansion and in the second half of 1960 was 14 per cent. above that of the same period a year earlier. On the other hand, higher interest rates did attract an inflow of liquid funds, which was appropriate because of the deficit in external payments. The inflow of funds was so large, in fact, that the official discount rate was lowered by  $\frac{1}{2}$  per cent. in October and again in December to reduce the interest rate differential between London and New York.

One can say, therefore, that short-term conjuncture policy has been reasonably successful in achieving its objectives. It calmed down the threatened boom in demand without producing a slump; it secured a decline in durable-goods consumption and an increase in saving, which were offset by a rise in real investment; and the measures used were appropriate to the external payments position.

Yet, when budget day came in April 1961, it was evident that the government was not content with the economic situation. The Chancellor of the Exchequer felt obliged to impose additional fiscal restraints on the economy and to sprinkle his speech with warnings, even though production had been on an even level for the previous twelve months. The reason was that in the preceding year there had again been difficulties with the balance of payments and that, with expectations of rising consumption and investment expenditure, the need to strengthen sterling demanded caution. The recurrence of balance-of-payments difficulties every few years suggests that this is not the result of short-term economic developments or of inadequacies of short-term policy. What then is the difficulty and from what does it arise?

*Balance of payments.* It may be seen that imports rose sharply in the second half of 1959, as economic expansion gained momentum, and rose further in 1960 but at a much slower rate. The increase in imports may be attributed partly to the further liberalisation of trade that came with the return to convertibility and to some special factors which were operative during the year, e.g. the large purchases of jet aircraft. But, in the main, the rise was not too far out of line with the increase in industrial activity and the gain in total national expenditure. In the rise there was reflected, of course, the need to rebuild inventories of imported materials and finished goods after their decline in the recession of 1958. However, there was a further decline in net invisible receipts, which, at £22 million, were some £200 million lower than in 1958. On the other hand, the rise in exports amounted to only £200 million; allowing for special factors affecting motor-car exports, this experience was rather better than that of recent years, though well below the gains made by other European countries. There was, therefore, deterioration of the balance on current account, which changed from a surplus of £51 million in 1959 to a deficit of £344 million in 1960. The change in long-term capital movements eased, rather than aggravated, the situation as the outflow, excluding payment for the higher I.M.F. quota, declined from £263 to 201 million over the same period.

Failure of exports to expand in line with imports in any one year need not be serious if the longer-term trend is satisfactory. Thus, the exports of the United Kingdom in 1960 were to some extent adversely affected by the weakness in various sterling-area markets, whereas imports were somewhat higher than their normal relation to production because of the need for restocking. Such a temporary imbalance could be handled by drawing on reserves or, as was the case, by attracting an inflow of short-term funds. The trouble is, however, that the United Kingdom has been suffering from a longer-term inadequacy of exports which has made the balance-of-payments position precarious on various occasions, has frustrated the aim of the authorities to reach a higher level of reserves, and, more recently, has not compensated for the downward trend of invisible receipts. From 1953 to 1960 the volume of exports increased by 28 per cent. In comparison, the rise for Germany was 156 per cent., Italy 180 per cent., the Netherlands 92 per cent. and Switzerland 67 per cent. In fact, world exports, excluding the communist-bloc countries, rose by over 50 per cent. in the same period.



The key factor in the unfavourable comparative showing of U.K. exports has been the almost continuous tendency of wage increases to exceed productivity gains, with consequent increases in costs and prices. This was the case by a wide margin in the years from 1953 to 1957. In the recession year of 1958 average earnings rose more modestly by 2.5 per cent. but a steep rise was resumed in 1959, when the increase was 4.75 per cent. Between the second half of 1959 and the same period of 1960 average earnings per head increased by 5.5 per cent. and once more exceeded productivity gains. Hence, what the Economic Survey for 1961 says discreetly in the future tense could be put more bluntly in the past tense:

“If (As) increases in pay continue (have continued) to outstrip the rise in national productivity, the pressure on costs and prices will be (has been) intensified and ability to export will be (has been) impaired.”

While export-price indexes are available for only a few countries, the average-value indexes for exports indicate the disadvantages in price trends that U.K. exporters have had to overcome. These show the following percentage price changes from 1953 to 1960: United Kingdom, + 10; Germany, + 2; Netherlands, — 1; Switzerland, — 4 (to 1959). In fact, the U.K. index was stable after 1957 but recently the threat of a new upward trend has arisen.

There is always reluctance to face the fact, and consequences, of inflation — particularly wage-cost inflation, because there are no pat techniques for dealing with it. And, as in other cases, there have been other causes of lagging exports in the United Kingdom. While giving full weight to these, the continuing influence of cost inflation must be kept in the forefront.

The problem is not one to be met merely by adjustments in short-term policy emphasis. British industry must set its export sights substantially higher than has been the case in the past and there should be better understanding between government and export industries with respect to investment levels and expansion rates required to meet the export needs of the nation. It is a hopeful sign that efforts are being made along these lines, with a new sense of urgency. But it is essential, above all, that labour, business and government create the public understanding and find the methods of wage negotiation that will lead to price stability and avoid the results of these efforts being defeated by further price increases.

*Economic growth.* Opinion in the United Kingdom has also been concerned by the slower growth of the economy compared with that of the other countries of western Europe. From 1955 to 1960 the real gross national product increased by 12 per cent., whereas for all member countries of the O.E.E.C. the rise was 22 per cent. Even leaving aside Germany and Italy, where output increased by one-third, the United Kingdom's performance was less favourable than that of most other countries, where an average of about 20 per cent. increase in national output was achieved.



If this is, indeed, a problem, it is clear that it is not a problem of under-utilisation of resources, as in the United States. The economy in 1960 was at a low level of unemployment and, although operations in a few industries were on a reduced working week, there was little margin for fuller use of resources. Thus, any problem there might be is of a longer-term character and not to be resolved by short-term policy changes. This is a difficult question because we have much less understanding of the process of long-term growth than of cyclical change.

It is essential, first, to recognise the real progress that has been made. In the period from 1955 to 1960 the rise in the real national product of 12 per cent. was a little less than the 14 per cent. gain made in the preceding five-year period. However, the important thing is that in the more recent period the rise is largely accounted for by productivity increase (gross national product per man-hour), whereas from 1950 to 1955 the gain in man-hour productivity was only 8 per cent. In the last five years the rise in the labour force and in employment was about offset by reduced working hours, while in the previous five years almost half of the increase in total output was attributable to increased labour utilisation.

These facts put the comparison between the United Kingdom and various other countries in a less unfavourable light — because the rising labour supply, through natural growth and immigration, has been a factor which has contributed to increased output in most other countries. The higher rate of productivity gained in the United Kingdom does indicate that the effort made to raise the proportion of investment in total output has produced results, although the favourable change in the terms of trade also played a rôle. In 1960 fixed investments accounted for 16.1 per cent. of the national product, while in 1955 the figure was 14.8 per cent.

None the less, the rate of productivity increase and the proportion of investment in the United Kingdom have been lower than in most continental countries, so that further efforts towards improvement appear warranted. There may perhaps be opportunities for increasing the incentives to investment and seeing to it that restraining measures bear more heavily on consumption, but it should not be assumed that investment automatically responds just because room is made for it in aggregate demand or that productivity automatically rises with rising investment. It is essential also that flexibility in the structure of demand, which would bring a shift to the more productive industries, should not be obstructed.

Attainment of a dynamic trend in exports would itself contribute to this process, since it would imply a shift to the higher-productivity industries and raise their investment requirements. In any industrial economy it is the industries with relatively higher efficiency and lower real costs that provide the bulk of exports, and one can see the important rôle the export industries have played in the faster-growing economies on the Continent.

But, in addition, one may ask whether the broad shape of policy, as distinct from the current adjustments to cyclical changes, is oriented in the

same direction. For example, is there sufficient government investment in roads and education facilities, compared with other investment choices in the public sector, to make an adequate contribution to longer-term growth? And does not the structure of taxes work against the growth of the high-productivity industries? Even leaving aside the heavy subsidy to agriculture, food consumption escapes purchase tax and a substantial part of housing is subsidised, while consumer durables are taxed heavily. This is not a question of necessities versus luxuries, for the basic problem of economising resources is inherent in all uses of resources. But if the categories of consumption in which productivity is lower and the gains smaller, such as food and housing, are favoured by the fiscal system, must not growth be slower — both for the heavily-taxed goods and for the economy as a whole?

The point here is not to take a position on such social questions, or on the restrictive policy with respect to use of foreign labour, but only to emphasise that the choices made are directly related to the problem of growth. Progress in the United Kingdom over the past five years has not been negligible; but if greater progress is desired, it must be sought in the framework of longer-term policy decisions.

#### **France.**

*Balanced growth.* During the first quarter of 1961 industrial production in France was 20 per cent. higher than in the same period of 1959 and exports were 50 per cent. higher. These two facts attest the vitality that the economy has shown since the stabilisation measures taken at the end of 1958 restored competitive cost/price relationships with the outside world and started the return of confidence in the French franc. The upsurge of activity came largely in 1959 and was followed by some easing-off of exports and production in the first half of 1960. Since then production has been rising at a more sustainable rate, to yield a conjuncture that may appropriately be described as full employment without significant overstrain.

While exports provided the main impetus for the expansion in 1959, private investment and consumption have been the motive forces in the more recent period. The government has contributed to the maintenance of demand pressure through a sizable increase in public investment at a time when the investment outlays of public enterprises were levelling off. It has, in addition, stimulated an increase in house-building activity. A principal aim of the government, particularly in 1959, was to restrain the rise in wages, which were significantly reduced, in real terms, by the devaluation of the franc. There have since been upward adjustments of wages but, given the substantial increase in productivity and the adjustment of the cost of living to the new value of the currency, they cannot as yet be said to have menaced external financial stability. For the future, however, it will be necessary for wage increases to be more moderate.

In the monetary field, the balance-of-payments surplus was again in 1960 an important source of liquidity for the banks. The sale of their net

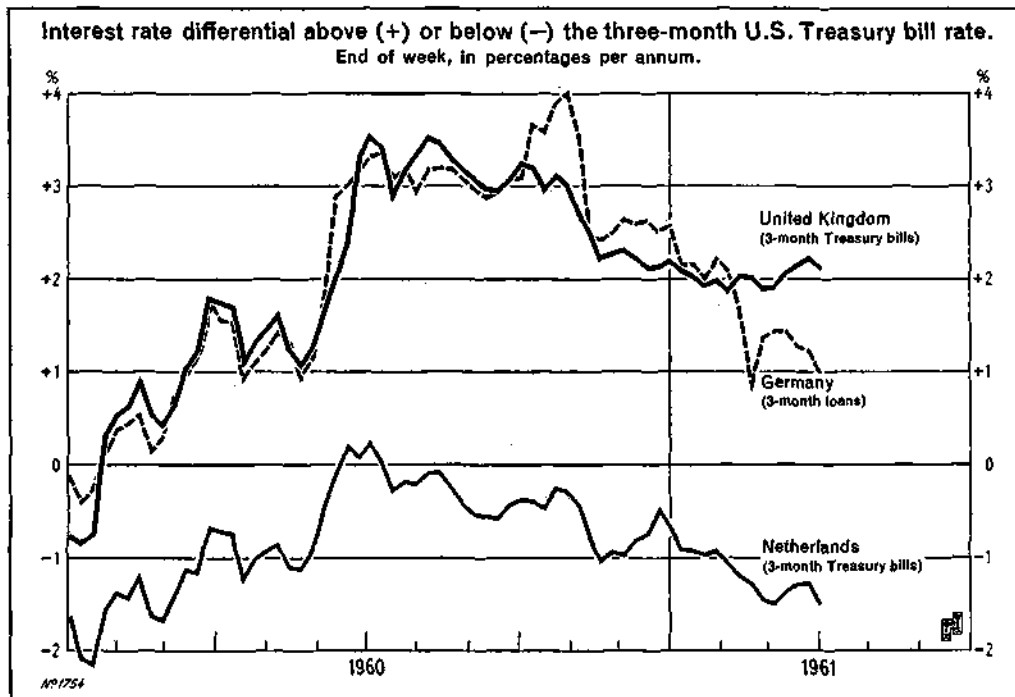
accruals of foreign exchange to the central bank, together with a moderate return to the rediscounting of short and medium-term paper, enabled the banks substantially to accelerate their private lending activity during the year. Under existing circumstances the monetary authorities did not consider it necessary to inhibit this development; instead, as a stimulus to private investment, they continued with their previous policy of bringing down interest rates. In addition to a lowering of the discount rate from 4 to 3½ per cent. in October 1960, the interest rates paid on Treasury bills were reduced during the year and those on deposits as from the beginning of 1961. The Treasury was able, without having to place a loan on the capital market, to borrow through its usual channels more than sufficient funds to finance its construction and equipment loans to the private sector. The excess funds were used to repay earlier advances from the central bank and to amortise debt, partly by advance repayments of foreign debt.

With the recovery of exports in 1959, the current external balance moved into substantial surplus and there was a large inflow on capital account. In 1960 this led to an increase of \$350 million in reserves, despite the fact that repayment of external debt exceeded half a milliard dollars. There has been little tendency for the rise of imports to overtake that of exports during the past year, but some movement in this direction seems likely in the period ahead. The large balance-of-payments surplus has been useful during the past two years because of the need to repay foreign debt and to reconstitute reserves. As these needs taper off in the future, however, a more balanced payments situation will be in the interest of France and of the international payments situation as a whole.

#### **The international payments position.**

The disequilibrium in external payments with which policy has had to contend for more than two years has been of two sorts. First, there was an imbalance in the current and long-term capital accounts combined, including government transactions, and secondly, there were large international transfers of short-term funds which moved in a direction, not to offset, but to widen the basic disequilibrium. For the most part, the problem centred upon the large deficit of the United States, with its attendant gold outflow, and the equally large surplus of western Europe, with the significant exception of the current deficit of the United Kingdom.

It is striking that, as in the sterling crisis of 1957, the period of greatest strain on the dollar in the second half of 1960 occurred when the trade position was improving materially; for the year 1960 the United States had a surplus on current account of \$3.0 milliard, as against a deficit of \$0.9 milliard in 1959. In both cases a major cause of this anomaly was a large flow of funds seeking protection against the possibility of currency devaluation. But this time the wide gap in interest rates between the United States and several European centres was an independent cause of the movement of funds. This occurred before the exchange rate uncertainty and was, in fact,



partly responsible for it. As confidence in the dollar was being re-established, a new disturbance in exchange markets arose following the revaluation of the Deutsche Mark and guilder in March 1961. Selling pressure at this time centred on sterling, though there were also large transfers from the Euro-dollar market into certain continental currencies.

*The basic imbalance.* As already mentioned, the international payments situation has shown a very substantial improvement over the past year. The swing of almost \$4 milliard in the U.S. current-account balance from 1959 to 1960 has reduced the extreme European surplus and re-established a U.S. surplus. This has come about primarily because expansion in Europe has stimulated U.S. exports and European imports, and partly because U.S. imports declined somewhat during the recession. This process has been helped by policy measures on both sides of the Atlantic, including European steps to liberalise and expand imports. The United States has initiated action to save foreign exchange in its military and foreign aid programmes as well as to increase earnings by larger exports of goods and tourist services. In Europe, the revaluation of the Deutsche Mark and guilder should prove helpful; Germany has also undertaken heavier foreign aid responsibilities as well as advance debt repayment and larger arms purchases abroad.

But the fact remains that the basic deficits and surpluses are still too large to maintain on a continuing basis. The prospects are uncertain also because renewed expansion in the United States and slowing-down of growth in Europe may tend to make them rise. Hence, policy measures must include further balance-of-payments improvements among their objectives.

While it is recognised that both the deficit and the surplus countries have obligations in this respect, the matter has been obscured because the disequilibrium had more than one cause. On the one hand, European productive capacity has risen enormously since 1953 and this has enabled Europe's exports to grow very rapidly. On the other hand, costs and prices in the United States have risen materially, particularly for internationally traded manufactured goods, and this has impeded the growth of U.S. exports and encouraged imports. Some opinion in the United States has tried to minimise this factor by pointing out that indexes of wage costs and prices have gone up about as much in Europe as in the United States. In fact, U.S. costs and prices did increase faster in key industries, such as steel and engineering. What is more important, however, is that European goods could afford the rise because costs and prices started much lower. This means that the wage/price spiral in the United States interfered with a gradual adaptation of exports and imports to the increasing competition of European goods on world markets and at home.

This experience has shown that stability and strength of the dollar are a basic condition needed to make convertibility work. For without it a U.S. deficit can result that is too big for European countries individually to adjust to unless they subject themselves to substantial inflation. While it is apparent, therefore, that Europe should make the contribution to foreign aid and defence permitted by its increased productive capacity, the United States has the obligation to contain inflation so that imbalance does not arise from that cause.

*Short-term capital flows.* The new element in international payments that has come to light since mid-1960 is the magnitude of the short-term capital movements that can develop with convertibility. The outflow from the United States in 1960 was close to \$2 milliard and the shift of funds within Europe in a single week in 1961 was more than one-quarter of that sum. Such movements raise problems for the receiving country as well as for the sender and, in too large volume, they are a threat to convertibility. General policy in various countries has aimed at holding down such flows and, in addition, both Switzerland and Germany took special direct steps in 1960 to discourage the inflow of funds. It is recognised that reasonable balance-of-payments equilibrium is the fundamental condition needed to keep such flows to manageable proportions. But, in addition, events of the past year have led the authorities to reconsider both the methods and the instruments of the management itself.

Two things stand out. One is that better co-ordination of policy measures is needed to assure the smooth working of the payments system. The flow of funds induced by interest rate differentials illustrates this point, as does the fact that several countries, including the United States, were quite late in waking up to the threat to the payments system which arises from neglect of the basic disequilibrium. The other is the need for co-operation in handling the flows of funds because they can be too great to be borne

by reserves alone. This is not primarily a question of the size of reserves. A striking fact is that reserves are not as liquid as they appear, since a drain on them that becomes too large can start to feed on itself.

Events have been leading governments and central banks to find means to meet these needs. On the initiative of the United States, the O.E.E.C. is being transformed into the O.E.C.D., with the United States and Canada as full members, to provide a forum for the discussion of policy problems of mutual interest to the member governments. And for the more strictly central-bank problems, discussions at the Bank for International Settlements are being made more effective by the active participation of representatives from the Federal Reserve System.

Important steps of co-operation have been taken. An understanding was reached between the U.S. and U.K. authorities at the time of the gold-buying wave in October which allowed the Bank of England to intervene for the purpose of dampening speculative impulses. At the same time, a wider circle of central banks agreed informally to refrain from buying gold on the market while the price was above the official U.S. price plus transfer costs. These actions, coupled with President Kennedy's strong follow-up of the previous Administration's determination to strengthen the dollar, left a supply of gold on the market that was too large to be swallowed by speculative hoarding. When the price fell to normal levels in February and March 1961, the central banks agreed further to enter the market cautiously and to maintain contact with each other so as not to disturb the situation. Co-operation was also effective after the revaluations in March, when the provision of facilities among central banks enabled the huge flow of funds within Europe to be handled without a full impact on reserves or chaos in foreign exchange markets.

Further means of co-operative action are being studied. In his balance-of-payments message in March President Kennedy directed the Secretary of the Treasury to initiate studies of ways in which international monetary institutions can be strengthened, and this is being done in co-operation with other leading countries. Possibilities of wider central-bank action are also being considered.

Thus there are helpful developments with respect to this difficult problem of international monetary management. Over-liberal expansion of international credit on an automatic basis is not the answer. Hence, it still remains to find the correct path which will provide adequate financial resources for short-term needs, without danger of diversion of such funds to long-term financing.

## PART II

### SURVEY OF ECONOMIC AND MONETARY DEVELOPMENTS.

#### I. THE FORMATION AND USE OF THE NATIONAL PRODUCT.

Viewed in the spring of 1961, the economy of the western world appeared to be heading for a phase of general business expansion, in which the rates of growth on both sides of the Atlantic will perhaps move closer to each other than they have been in recent years.

In continental Europe, as a result of the sustained strength of domestic private demand and a slow increase in public expenditure, output is expected to continue to rise. The rate of increase is likely to be less impressive than it was in 1959 and 1960, however, because of the levelling-off of external demand and the very high degree of utilisation of resources already achieved.

In the United Kingdom, after a year of stability at relatively high levels of output, a revival of expansion is expected to result from the intensification of the already strong demand for investment in the manufacturing industries — the forecast is for a 30 per cent. increase over 1960 — and a rise in consumer expenditure, especially on durable goods, is anticipated as a result of the relaxation of credit restrictions during the winter. The central government will also increase its demand for goods and services.

In the United States the recession appeared to reach its lowest point in February 1961 and, while the extent and duration of the recovery remain to be seen, it is likely that there will be a quickening in the pace of activity because of the policy measures being taken to promote more rapid growth. Economic revival in the United States will be closely associated with a shift from inventory liquidation to inventory accumulation, an increase in house-building (stimulated by more favourable credit terms) and in various types of public construction and, possibly, greater consumer demand for household durables. All this should stimulate development in the rest of the world.

#### **Industrial production.**

In continental Europe the volume of industrial output has been rising strongly for over two and a half years now. This movement started slowly towards the middle of 1958 and gathered momentum during the first half of 1959; in the second half of that year the rate of growth recorded was the

highest for ten years. Towards mid-1960 the rise in output began to slow down but, with the exception of Belgium, where social disturbances caused industrial output to fall in the last quarter of 1960, none of the countries of continental Europe produced less in the second half of 1960 than in the same period of the previous year. The deceleration is shown by the fact that the percentage changes between 1959 and 1960 in the index of industrial production are generally smaller in the case of the end-of-year figures than if the changes in the annual averages are compared.

Industrial production in selected countries.

Countries	Change over previous year		Change in end-of-year figures <sup>1</sup>		Change in 4th quarter 1960 and 1st quarter 1961 seasonally adjusted	
	1959	1960	1959	1960	1960	1961
	in percentages					
Austria . . . . .	3.0	8.7	6.2	9.8	4.0	0.3
Belgium . . . . .	3.6	6.0	10.1	- 1.1	- 2.9	- 7.7 <sup>2</sup>
Denmark . . . . .	8.0	4.1	8.7	0.8	- 1.8	.
Finland . . . . .	8.0	11.5	13.0	8.2	3.9	1.9 <sup>2</sup>
France . . . . .	3.9	11.4	10.8	5.7	1.0	0.9
Germany . . . . .	7.7	11.2	11.3	9.2	2.9	3.8
Italy . . . . .	10.9	15.3	14.6	10.0	1.2	4.0
Netherlands . . . . .	9.4	12.9	11.6	11.0	3.6	1.3
Norway . . . . .	4.5	7.0	5.7	6.5	1.0	1.7
Sweden . . . . .	3.7	7.9	8.2	4.5	2.1	2.5
United Kingdom . . . . .	6.6	6.2	10.4	2.6	0.1	- 0.6
Canada . . . . .	7.6	0.8	8.1	- 1.9	0.3	- 0.4 <sup>2</sup>
United States . . . . .	12.9	3.0	6.3	0.2	- 3.3	- 2.3
Japan . . . . .	24.2	25.3	30.6	22.7	4.4	5.9

<sup>1</sup> Fourth quarter over corresponding quarter of previous year.

<sup>2</sup> January and February.

In the course of 1960 there were signs that production in some countries was reaching a ceiling. This was the case, for example, in France and Sweden and, somewhat later, in the Netherlands, and it seemed that full employment of labour and plant might soon sharply curb expansion all over Europe. This did not happen, however, as supply elasticities proved to be greater than had been commonly assumed. In fact, the data for changes in the fourth quarter of 1960 and the first quarter of 1961 suggest that there was still considerable dynamic potential in many countries.

Developments in the United Kingdom, the United States and Canada differed substantially from those in continental Europe. After three years of stagnation, industrial production in the United Kingdom made an impressive forward bound of 10 per cent. during 1959, but early in 1960 the fear of inflationary developments and of their repercussions on the external position prompted the authorities to apply the brake, particularly to consumer credit, and the expansion in overall industrial output came temporarily to a halt.

In the United States recovery from the 1957-58 recession started in the second quarter of 1958 and industrial production increased very rapidly for fourteen months, so that by June 1959 output was 8 per cent. above its



previous peak. Then, under the influence of the steel strike, production dipped, thereafter recovering slowly until January 1960, when it was slightly above the pre-strike level. After remaining stationary, but with a weak undertone, until July of that year, it declined steadily until February 1961, when it reached its lowest point in the present cycle — some 8 per cent. below its level in January 1960. In March 1961 industrial production began to rise again.

Developments in the Canadian economy are closely linked with those in the United States, though there is occasionally a time-lag between the two. In point of fact, the recovery from the 1957 recession started earlier in Canada, but it did not really acquire momentum until the autumn of 1958, when it was reinforced by the upswing in the United States. As in the latter country, Canadian industrial production reached its peak in January 1960 and afterwards started falling. The decline, however, was shorter and less severe than that in the United States. The low point was already reached in July at a level some 5 per cent. below the January figure. Then there was a timid recovery movement, which, however, did not last. Since October production has remained fairly stable for a few months in succession.

High rates of expansion were not limited to continental western Europe; another country which has a remarkably good record is Japan. By 1953 its industrial production was back to pre-war levels. In the following seven years industrial output nearly trebled and the average annual rate of expansion was almost 15 per cent. In the last two years the annual rate of increase averaged no less than 25 per cent., about three-fifths being due to productivity gains. It is estimated that the increase in industrial output for the fiscal year 1961-62 will be in the neighbourhood of 15 per cent.

While high rates of growth in national income and in industrial production continue to be attained also in countries with centrally-planned

**Centrally-planned economies:  
National income, industrial production and productivity.**

Countries	Annual changes					
	National income		Industrial production		Output per man in industry	
	Average 1958-59	1960	Average 1958-59	1960	Average 1958-59	1960
	in percentages					
Albania . . . . .	13	3	20	11	—	9½
Bulgaria . . . . .	14	7	18	13	4½	2½
Czechoslovakia . . . . .	7	9	11	11½	7	7
Eastern Germany . . . . .	10	8½	11½	8½	9½	8
Hungary . . . . .	6½	6	12	12½	6½	5½
Poland . . . . .	5½	5	9½	11	8	11
Rumania . . . . .	8	8	10	17	6½	11
U.S.S.R. . . . .	10	8	10½	10	6½	5
Yugoslavia . . . . .	10	8	12	15	5	8

Note: Data from national statistics or the E.C.E.

economies, here too there appears to have been some slowing-down in a few cases. The much higher expansion percentages for industrial production, compared with those for the national income, are to be ascribed to the industrialisation effort being made via investment, which in industry is about three times as high as in agriculture, and to the relatively poor crops in 1960 in most of these countries. In 1960, as in 1959, output of producer goods rose everywhere more than that of consumer goods, and for industry as a whole the greater part of the gains in production were in many cases achieved through higher output per man.

### Productivity gains.

The unexpectedly large increase in industrial employment in a number of European countries in 1960 was due to several special factors which, under the pressure of strong demand, added substantially to the labour force over and above the net natural rise in that year. In some countries, notably Italy, it was still possible to recruit labour for industry from among the unemployed, and in several of them immigration played an important rôle. Almost everywhere in Europe the movement away from agriculture towards industry and services continued. Besides this, more women entered the labour force and, lastly, more people seem to have remained at work beyond the normal retiring age, this having been largely offset, however, by the raising of the school-leaving age.

Changes in productivity in industry  
and in real gross national product per head of population.

Countries	Years or annual averages	Employment	Hours worked	Industrial production	Productivity per man-hour	Gross national product per head
Austria <sup>1</sup> . . . . .	1956-58	1.0	- 0.4	4.2	3.6	4.5
	1959	- 1.0	- 3.2	3.8	8.4	2.8
	1960	2.9	- 0.2	8.7	5.8	7.9
France <sup>2</sup> . . . . .	1956-58	1.7	0.3	7.3	5.2	3.2
	1959	- 2.2	- 0.4	3.4	6.1	1.1
	1960	0.8	1.1	9.2	7.2	5.1
Germany <sup>1</sup> . . . . .	1956-58	3.4	- 3.0	5.3	5.0	3.8
	1959	0.4	- 0.7	7.2	7.5	5.4
	1960	4.1	0.1	11.6	7.1	6.8
Italy <sup>1</sup> . . . . .	1958	0.3	- 1.2	3.9	4.8	3.7
	1959	3.6	1.2	11.1	6.0	6.4
	1960	4.2	0.6	15.3	10.0	6.1
Netherlands <sup>1</sup> . . . . .	1956-58	0.3	- 0.3	2.2	2.2	1.2
	1959	0.9	0	9.4	8.4	4.0
	1960	2.8	0	12.9	9.9	6.5
United Kingdom <sup>3</sup> . . . . .	1956-58	- 0.3	- 0.7	0.2	1.2	0.9
	1959	0.4	1.1	6.7	5.2	2.4
	1960	3.7	- 1.5	7.7	5.5	4.2
United States . . . . .	1956-58	- 2.1	- 1.2	- 1.4	2.0	- 1.0
	1959	4.5	2.8	14.0	5.9	4.9
	1960	1.0	- 1.5	2.8	3.2	0.7

<sup>1</sup> Excluding construction, including mining.

<sup>2</sup> Including construction.

<sup>3</sup> Manufacturing industry only.

Within the industrial labour force there have been some shifts of labour from the less to the more expanding branches, for example from coal-mining and ship-building to the metal-working and chemical industries. This helped to push up the gains in output per man in industry as a whole, while the shift from agriculture to industry and the use of formerly unemployed workers led to higher rates of growth of the real national product per head than would otherwise have been achieved. These factors made possible expansion rates that had seemed unattainable at the end of 1959, when full employment of resources was widely considered to have been reached in Europe. The main contribution to higher output came, however, from the rise in production per man-hour, which in 1960, as in 1959, was everywhere distinctly more rapid than the average for the three-year period 1956-58. In most cases these substantial gains in productivity were rendered possible by the existence of excess capacity due to the low rate of expansion, or even the downturn, in industrial activity in 1957-58, but they were also, especially in 1960, the result of the large-scale investment made in plant and equipment in recent years and of the fact that a greater part of it went to capital intensification.

#### Structural economic changes in the last decade.

The shifts taking place in many countries in the relative importance of the main sectors contributing to the total national output are clearly brought out by data recording developments during the last ten years. In all countries, even in Italy, Denmark and the Netherlands, which are important agricultural countries, the contribution of agriculture to the national product is steadily shrinking, while within agriculture itself the share of animal products in total output is substantially increasing.

Origin of national product, 1950 and 1960.

Countries	Sector of origin					
	1950			1960 <sup>1</sup>		
	Agriculture <sup>2</sup>	Industry	Services	Agriculture <sup>2</sup>	Industry	Services
	In percentages of total product, at constant prices					
Austria . . . . .	16.5	51.6	31.9	12.4	54.7	32.9
Belgium . . . . .	8.4	45.1	46.5	6.7	46.2	47.1
Denmark . . . . .	20.2	36.2	43.6	18.3	37.4	44.3
Finland . . . . .	25.4	38.4	36.2	21.1	44.1	34.8
Germany . . . . .	10.4	47.3	42.3	6.7	55.2	38.1
Italy . . . . .	27.9	35.3	36.8	20.8	47.1	32.1
Netherlands . . . . .	14.2	39.7	46.1	10.5	43.4	46.1
Norway . . . . .	16.6	38.3	45.1	11.3	34.4	54.3
United Kingdom . . . . .	4.9	45.8	49.3	4.8	47.4	47.8
Canada . . . . .	13.2	40.3	46.5	8.7	43.1	48.2
United States . . . . .	6.3	38.0	55.7	4.9	39.5	55.6

<sup>1</sup> 1959 in the case of Belgium, the Netherlands, the United Kingdom and Canada. <sup>2</sup> Including forestry and fishing and, in the case of Norway, whaling.

In some of the countries where industry has greatly expanded its relative share in the national product, for example in Germany and Italy, this has been at the expense not only of agriculture but also of services. In the United Kingdom and the United States too, though to a much smaller extent, industry has gained vis-à-vis services. In other countries — Austria, Belgium, Denmark and Canada — services have improved their relative position, though less than industry. In Norway services have gained impressively over both agriculture and industry, probably because of the expansion of earnings from shipping, which in 1960 accounted for as much as 36 per cent. of the added value of output for industry as a whole (including mining and construction). In the United States the share of services remained practically unchanged, while that of agriculture shrank still further, so that it is now almost as small as in the United Kingdom.

Changes in manufacturing production between 1950 and 1960.

Countries or groups of countries	Total manufacturing	Textiles	Metal products	Chemical products
	in percentages			
O.E.E.C. countries . . . . .	85	25	100	160
<i>of which</i>				
E.E.C. countries . . . . .	115	40	180	210
United Kingdom . . . . .	40	- 15	55	90
United States . . . . .	45	10	75	80

Within industry too, as in agriculture, there are in western European countries and the United States sectors which, during the last ten years, have fallen considerably short of the average rate of expansion; in the textile industry there were even cases (e.g. the United Kingdom) in which output actually declined. It was mainly such groups as the metal-goods and chemical industries that provided the motive force to high expansion rates.

The high levels already attained in 1950 by output in these branches of industry in the United Kingdom and the United States explain, in part

Approximate share of E.E.C. countries, the United Kingdom and the United States in combined industrial output.

Countries	1950	1960
	in percentages	
Germany . . . . .	8.0	12.0
France . . . . .	5.5	7.0
Italy . . . . .	3.5	5.0
Benelux countries . . . . .	3.0	3.0
<b>Total for the E.E.C. . . . .</b>	<b>20.0</b>	<b>27.0</b>
United Kingdom . . . . .	15.0	13.0
United States . . . . .	65.0	60.0
<b>Total for countries listed . . .</b>	<b>100.0</b>	<b>100.0</b>

at least, why their performance was not as brilliant as that of the Common Market group of countries, among which Italy and Germany were in 1950 just starting to make their big leap forward. There is reason to believe, however, that the post-war opening of the Italian and German markets to competition from abroad after years of autarkic policies, together with the increase in internal

competitive pressure and the widening of external markets resulting from the creation of the Common Market, has injected into the economies concerned a new vitality. This, and their lower starting-point, helps to account for the fact that these countries have increased their share in the combined volume of industrial output.

While the big expansion of chemical production is closely connected with the very strong demand for new synthetic materials (fibres, rubber, plastics, drugs, etc.), which have partly displaced traditional products, the growth in the output of the metal-working industries is the direct outcome of the sustained demand both for consumer durables and for producers' equipment required for investment projects both at home and abroad.

Some idea of the importance of this development can be obtained by comparing the rates of increase in the output of capital goods and consumer goods respectively over the period 1950-60. The few figures available show that in Austria, Denmark, Germany and Italy the production of capital goods rose by about twice as much as that of consumer goods, whereas in Norway and Sweden the difference between the rates of increase is 50-60 per cent. In the United States output of the two types of goods rose by the same percentage amount.

Increase in output of capital and consumer goods between 1950 and 1960.

Countries	Capital goods	Consumer goods
	in percentages	
Austria . . . . .	120 <sup>1</sup>	65 <sup>2</sup>
Denmark . . . . .	85	25
Germany . . . . .	295	110
Italy . . . . .	140	75
Norway . . . . .	75	50
Sweden . . . . .	40	25
United States . . . . .	45 <sup>1</sup>	45 <sup>2</sup>

<sup>1</sup> Durable goods.      <sup>2</sup> Non-durable goods.

The output of durable consumer goods and of producers' equipment reflects both domestic and foreign demand. Although foreign demand has in recent years been in many cases the most dynamic factor, quantitatively domestic demand predominates. Hence the production of these goods is both an indicator of future growth potential and a contributor to present expansion. Data on domestic expenditure on consumer durables and producers' equipment are available in the national accounts (at constant prices) up to 1959; these are summarised in the table on the next page.

The figures in the table show that in all the countries or groups of countries considered consumers' outlays on durables have risen more than producers' investments in machinery and equipment and that the difference between the increases in the two types of expenditure is smallest in the Common Market countries, where both have risen most. In the United States purchases of consumer durables exceeded purchases of producers' equipment and machinery by some 50 per cent. in 1959, and in Canada the two expenditure items were about equal. In all the O.E.E.C. countries, on the other hand, and notably in the Common Market, expenditure on investment goods is still greater. As expenditure on consumer durables in the O.E.E.C. countries, and

**Expenditure on consumer durables and on machinery and equipment.**

Countries or groups of countries	1950			1959			Increase in 1959 over 1950		
	Consumer durables	Machinery and equipment	Gross national product	Consumer durables	Machinery and equipment	Gross national product	Consumer durables	Machinery and equipment	Gross national product
	in milliards of 1954 dollars						in percentages		
E.E.C. countries . . .	4.2	8.4	96.2	9.8	15.8	152.9	110	90	60
United Kingdom .	1.9	3.2	45.4	3.8	4.5	55.8	100	40	25
Other O.E.E.C. countries . . .	1.3	2.5	30.6	2.5	3.8	43.8	90	50	45
All O.E.E.C. countries .	7.4	14.1	172.2	15.1	24.1	252.5	105	70	45
United States . .	26.0	21.3	319.7	31.6	21.3	429.9	20	0	35
Canada . . . . .	1.4	1.8	22.0	2.3	2.4	31.3	65	35	40

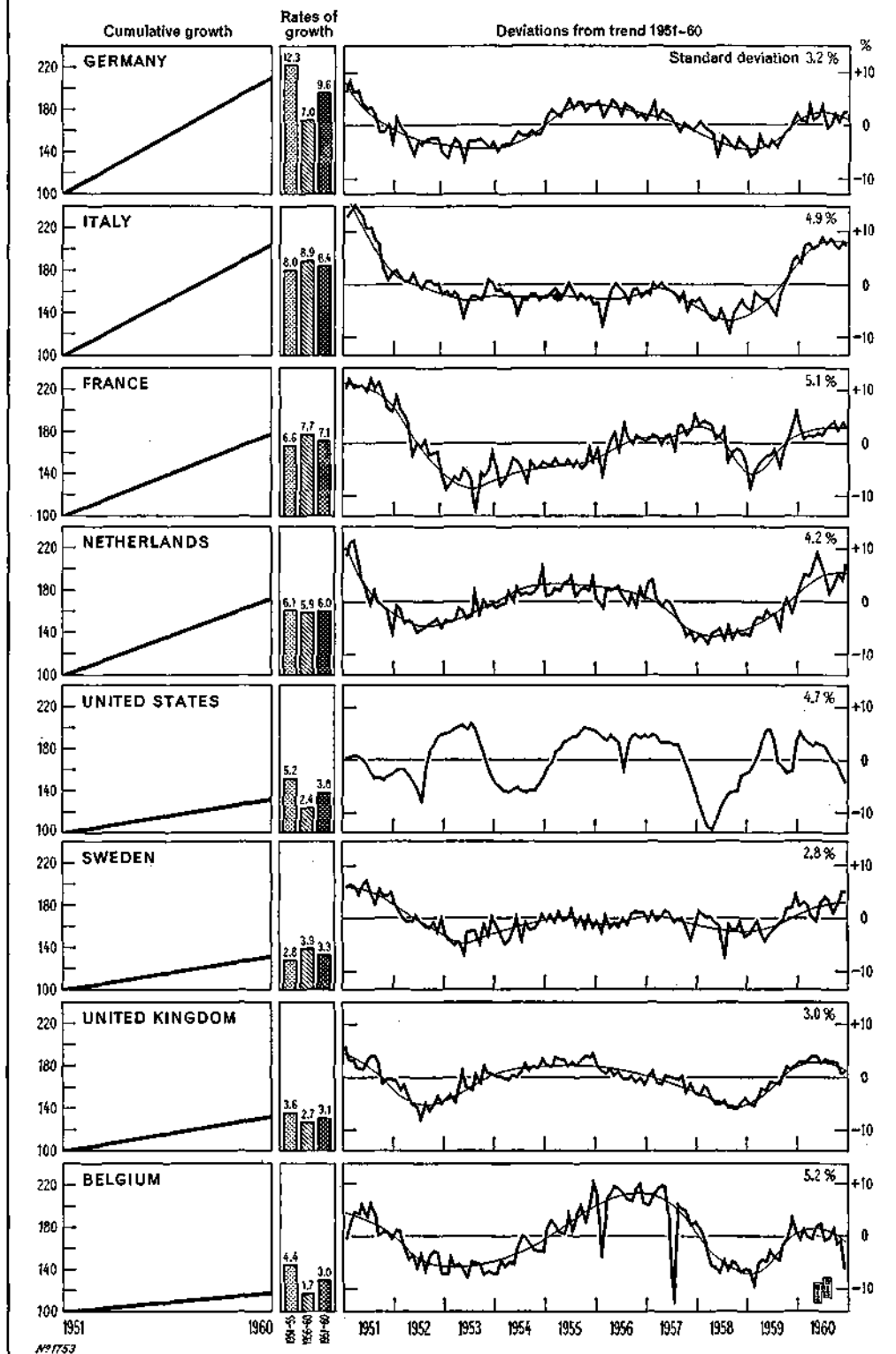
especially in the Common Market, is still relatively smaller than in the United States and Canada, it can reasonably be expected to continue its steep upward trend for some years to come.

**Economic cycles in the last decade.**

The relative mildness of the recessions in western economies during the ten-year period to 1960 makes it more difficult to appraise the extent to which individual countries are affected by what happens in the outside world. Furthermore, while the decade which opened in 1951 was dominated at the outset by the economic effects of the Korea crisis, during the remainder of the period more than one country was faced, at different times, with serious problems peculiar to itself, which were bound to generate autonomous waves, supplementing or partially offsetting the external influences at work, and to give rise to time-lags.

After the post-Korea period of adjustment one finds that the 1953-54 recession in the United States was not accompanied by a similar movement in Europe. On the contrary, continued expansion in Europe helped, via the growth of European imports, to limit the extent of the downturn in industrial output in the United States. This was also the case in 1960 (see also graph on page 110). When economic activity in the United States began to increase again at the turn of 1954-55, this revival reinforced the existing upward trend in Europe, until, by the end of 1955 or early in 1956, almost all western economies had reached their highest growth rates in that expansionary phase. This was followed by over a year of high-level activity, until around the middle of 1957 there was an easing-off almost everywhere, especially in the United States. The upswing which succeeded the 1957-58 recession was quite general and particularly vigorous in the United States. But, whereas in Europe, with the exception of the United Kingdom and Belgium, it continued throughout 1960 and into 1961, in the United States it was short-lived and

Industrial production 1951-60: The rate of growth and the cycle.



Growth and the cycle, 1951-60.

Countries	Average rate of growth	Average variation from trend
	In percentages	
Germany . . . . .	9.6	3.2
Italy . . . . .	8.4	4.9
France . . . . .	7.1	5.1
Netherlands . . . . .	6.0	4.2
United States . . . . .	3.8	4.7
Sweden . . . . .	3.3	2.8
United Kingdom . . . . .	3.1	3.0
Belgium . . . . .	3.0	5.2

came to an end before full employment of available resources was reached. As in 1953-54, the recession which followed, coinciding as it did with a European boom, was relatively mild.

For the limited number of countries shown in the table the average rate of growth of industrial production and the average variation from the trend do not in themselves show a very clear-cut relationship over the relatively short period

in question. But it seems plausible that the frequency and the range of cyclical fluctuations in a given country influence its rate of growth. However, a very high growth rate is in itself a sign of the existence of such dynamism in the economy that the course of development is easily able to take the occasional inevitable "accidents" in its stride. Thus the economic cycle, though it has not been eliminated, may be somewhat concealed as its waves move upwards and downwards away from a sharply rising trend line. If, in the downward phase of the cycle, the amplitude of the wave is smaller than the underlying rate of growth, the result will merely be a temporary slowing-down of the expansion. If, on the other hand, the growth rate is slow, even a mild recession will cause for a time an absolute decline in output, with a consequent lowering of the trend line itself.

Of course, in any particular country the growth rate over a fairly long period of time depends primarily on the strength and steadiness of overall demand and thus, to a large extent, on the success of official policies in limiting the intensity and frequency of recessions. It also depends, however, on the elasticity of the factors of supply, which can in some instances be influenced by policy decisions, as in the case of measures to promote the mobility of labour and the immigration of foreign workers, to facilitate the expansion of productive capacity and to open the domestic market to foreign goods.

**Sources of demand and available resources.**

For a number of countries data on changes in the gross national product are available only on an annual basis. Although such data tend to conceal the shorter-term cyclical movements, they do help to show those elements of aggregate demand that have contributed to changes in total output and in the external position, and the extent to which they have done so.

In eight of the eleven countries included in the following table the gross national product in 1960 rose in real terms more than in 1959.



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

Countries	Years	Sources of demand				Available resources	
		Consumption		Gross investment	Exports of goods and services	Imports of goods and services	Gross national product
		Private	Public				
in percentages							
Austria . . . . .	1959	5.1	3.6	4.0	9.2	13.8	3.2
	1960	7.0	2.6	31.9	11.1	20.5	6.4
Denmark . . . . .	1959	5.5	4.3	26.1	5.8	20.2	5.4
	1960	6.0	4.2	7.7	7.8	9.9	5.4
Finland . . . . .	1959	6.0	8.1	7.1	15.6	19.8	6.0
	1960	8.3	4.3	15.4	18.0	25.8	8.0
France . . . . .	1959	1.7	4.9	- 5.7	10.8	- 1.1	2.3
	1960	5.3	3.3	12.0	13.9	15.8	6.1
Germany . . . . .	1959	5.7	9.6	11.8	12.9	17.8	6.7
	1960	7.6	6.3	13.3	12.9	17.0	8.0
Italy . . . . .	1959	4.8	1.0	11.4	16.7	10.1	6.8
	1960	6.4	9.3	18.1	19.8	36.8	7.3
Netherlands . . . . .	1959	3.2	- 1.8	19.0	12.0	13.9	5.5
	1960	6.5	3.4	19.6	10.7	14.0	7.6
Norway . . . . .	1959	5.0	4.6	- 2.0	8.8	3.7	4.5
	1960	5.9	2.4	10.5	9.0	10.7	6.4
Sweden . . . . .	1959	3.9	5.5	10.8	6.2	5.0	5.3
	1960	1.9	3.9	3.1	12.5	17.3	2.5
United Kingdom . . . . .	1959	4.0	1.8	6.8	3.1	8.1	3.0
	1960	3.5	2.9	21.6	5.1	11.2	4.9
United States . . . . .	1959	5.8	1.1	26.1	2.3	12.5	6.7
	1960	2.6	0.1	- 0.7	15.1	- 2.9	2.6

In Denmark the increase was the same in both years; this was due to the effects of inventory movements, which in 1959 had shifted from liquidation to accumulation. In the remaining two countries, Sweden and the United States, the rise in 1960 was less than half that achieved in 1959, when the increase was well above the average for the last ten years. The decline in the rate of expansion in both these countries was the result of a slowing-down in demand in all the major domestic sectors, which was only partially offset by the upsurge of foreign demand.

Private consumption rose everywhere, the increases ranging from 8.3 per cent. in Finland to 1.9 per cent. in Sweden. And, except in Italy and Sweden, it rose proportionately more than public consumption. For a number of countries, moreover, the movements in the two categories of consumption in 1960 were of a compensatory nature, a larger increase in private consumption being accompanied by a smaller increase in the public sector, or vice versa. In Italy and the Netherlands both private and public consumption expanded more in 1960 than in 1959, while in Sweden and the United States they both increased less.

Exports of goods and services rose in percentage terms more in 1960 than in 1959 in nine of the eleven countries under review. The exceptions

are Germany, where the increase was the same, and the Netherlands, where it was slightly smaller. Of even greater significance is that in every country the relative rise in exports exceeded, often by a substantial margin, that in the national product, which confirms the important rôle they played in supporting the boom in most parts of continental Europe and in mitigating the effects of falling domestic demand in Sweden, the United Kingdom and the United States.

A growing volume of exports of goods and services has been a regular feature in most western countries for a number of years. And the increase has not been confined to absolute totals (at constant prices) but has extended to the export/gross national product ratio. Although, in comparing the figures in the table below, account must be taken of the countries' different positions at the starting-point, i.e. in 1950, the fact remains that in all the countries considered exports have risen proportionately much more than the national product. The only exception is the United Kingdom, which has witnessed a certain decline and, among the eleven countries, has dropped from fourth place to eighth. The Netherlands still comes first and the United States last.

Exports and imports of goods and services.

Countries	Ratio to gross national product of					
	exports of goods and services		imports of goods and services		net exports (+) or net imports (-)	
	1950	1960	1950	1960	1950	1960
In percentages, on the basis of current prices						
Austria . . . . .	16.2	27.2	20.2	28.1	- 4.0	- 0.9
Denmark . . . . .	28.3	33.7	32.2	35.0	- 3.9	- 1.3
France . . . . .	15.5	16.0	16.0	14.9	- 0.5	+ 1.1
Germany . . . . .	12.2	25.6	13.4	22.9	- 1.2	+ 2.7
Italy . . . . .	11.2	17.8	11.9	17.6	- 0.7	+ 0.2
Netherlands . . . . .	43.5	52.2	49.4	49.3	- 5.9	+ 2.9
Norway . . . . .	39.1	42.6	44.3	44.4	- 5.2	- 1.9
Sweden . . . . .	22.2*	23.4*	21.6	24.1	+ 0.6	- 0.7
Switzerland . . . . .	24.7	33.9	22.7	33.1	+ 2.0	+ 0.8
United Kingdom . . . . .	25.5	20.4	23.1	22.1	+ 2.4	- 1.7
United States . . . . .	4.6	5.3	4.4	4.7	+ 0.2	+ 0.6

\* Services included are net.

A more outward-looking approach to economic policy in European countries, the change-over from bilateral to multilateral trading arrangements and the abolition of import quotas, etc. have played an important rôle in the expansion of both exports and imports. In addition, they have contributed towards some of the adjustments in current-account balances of payments, whereby in some cases relatively large deficits have been considerably reduced (Austria and Norway) or even replaced by surpluses (France, Germany, Italy and the Netherlands). The reverse has been the case in Sweden and the United Kingdom, where a comfortable surplus has given way to a deficit.

**Changes in investment and in the gross national product.**

Countries	Years	Gross Investment			Gross national product
		in fixed assets	in stocks	Total	
in millions of national currency units, at 1960 prices					
Austria . . . . .	1959	1,200	— 200	1,000	4,400
	1960	4,000	4,000	8,000	11,500
France . . . . .	1959	150	— 3,250	— 3,100	6,000
	1960	2,870	3,120	5,990	18,470
Germany . . . . .	1959	5,900	800	6,700	16,300
	1960	6,900	1,500	8,400	20,500
Italy* . . . . .	1959	340	70	410	1,130
	1960	550	170	720	1,290
Netherlands . . . . .	1959	1,020	490	1,510	2,040
	1960	1,280	570	1,850	3,050
Norway . . . . .	1959	— 130	— 60	— 190	1,450
	1960	370	760	1,130	2,110
Sweden . . . . .	1959	1,580	— 210	1,370	3,350
	1960	580	850	1,430	1,730
United Kingdom . . . . .	1959	210	30	240	690
	1960	350	450	800	1,170
United States . . . . .	1959	6,100	8,600	14,700	30,900
	1960	2,100	— 2,250	— 150	12,600

\* In milliards of lire.

In order to arrive at the percentage calculations in the table on page 43, it was necessary to treat investment as a single category. Thus the data above are more useful in helping to ascertain the rôle played by the components of investment demand in 1960. Total domestic investment, in real terms, was higher in 1960 than in 1959 in all the countries included in the table, with the exception of the United States. Furthermore, in 1960 the increase was greater — in some cases considerably greater — than in the previous year and substantially contributed to the rise in the national product. All countries added to their stocks over the past year and it was only in the United States that stock accumulation was smaller in 1960 than in 1959. In Europe not only was there an increase in the rate of stock accumulation but in five of the eight countries considered (Austria, France, Norway, Sweden and the United Kingdom) additions to stocks accounted for a larger proportion of the rise in total new investment than did the increase in investment in fixed assets.

With regard to fixed investment, the construction of dwellings in most countries continued to account for the same proportion of the gross national product or else lost ground; only in the United Kingdom did its share again increase appreciably, although remaining well below the ratios attained in other countries. The part of the gross national product allocated to fixed productive investment in 1960 was larger than in the previous year in all the countries in the table on the next page, excluding France but including the United States, and much larger than in the early 1950s in every country except France and the United States. In 1960, as in 1950, the Netherlands had the highest ratio of total

**Gross and net fixed investment.**

Countries	Years	Gross fixed investment			Depreciation	Net fixed investment
		Dwellings	Productive	Total		
		In percentages of gross national product				
Austria . . . . .	1950	4.0	14.9	18.9	6.7	13.2
	1959	4.5	16.3	22.8	7.7	16.4
	1960	4.5	19.2	23.7	7.6	17.4
Denmark . . . . .	1950	2.8	12.2	15.0	—	—
	1959	3.0	14.9	17.9	—	—
	1960	3.0	15.7	18.7	—	—
France . . . . .	1950	2.2	13.7	15.9	9.5	7.1
	1959	4.3	13.4	17.7	8.7	9.8
	1960	4.1	13.2	17.3	8.6	9.6
Germany . . . . .	1950	3.7	15.1	18.8	10.4	9.4
	1959	5.8	17.2	23.0	8.4	16.0
	1960	5.8	18.3	24.1	8.3	17.2
Italy . . . . .	1950	2.4	15.4	17.8	6.3	10.3
	1959	6.1	15.6	21.7	9.7	13.2
	1960	5.8	17.4	23.2	9.9	14.0
Netherlands . . . . .	1950	3.8	16.2	20.0	9.9	11.2
	1959	4.7	18.9	23.6	9.3	15.8
	1960	4.1	20.6	24.7	8.6	17.5
Sweden <sup>1</sup> . . . . .	1950	5.0	14.1	19.1	9.4	10.8
	1959	5.3	17.3	22.6	12.0	12.0
	1960	5.2	17.7	22.9	12.1	12.2
United Kingdom . . . . .	1950	2.5	10.6	13.1	7.4	6.1
	1959	2.7	12.9	15.6	8.2	8.1
	1960	2.9	13.2	16.1	8.1	8.8
United States <sup>2</sup> . . . . .	1950	5.1	12.5	17.6	6.7	11.6
	1959	4.8	12.0	16.8	8.4	9.1
	1960	4.4	12.3	16.7	8.6	9.9

<sup>1</sup> Investment excludes military items.    <sup>2</sup> Including public civil construction.

gross fixed investment to gross national product, and the United States, which in 1950 was fourth from the bottom of the list, followed by France, Denmark and the United Kingdom, is now last but one, and it has the same position as regards the ratio of net fixed investment to net national product.

The depreciation ratios have not changed much in the course of the past decade and vary only slightly from country to country. This means that the relative differences in the ratios of net investment are often greater than those in the ratios of gross investment. Great caution should be exercised, however, in making these comparisons on account of the varying scope of national statistics for investment and, especially, depreciation and the different definitions used. It must also be borne in mind that replacements always contain an element of new investment, resulting from improvements in quality, techniques, etc. In the cases, however, in which the differences in the ratios are very great indeed, it is pertinent to ask whether it is not in the countries with high net investment ratios that productivity as a rule increases more rapidly, prices remain relatively stable and the current-account balance of payments either is in equilibrium or shows a surplus.

### Saving and investment by sectors.

In assessing the economic factors which have led to or been influenced by policy decisions, it is useful to examine, for a few countries at least, the share of the two main sectors of the economy — the public and the private sectors — in total net saving, in the utilisation of surplus savings of the individual sector and in the resulting net creation and acquisition of financial claims.

In France total net saving in 1960 rose from NF 25.9 to 30.8 milliard, more than four-fifths of the increase having occurred in the private sector. Investment increased proportionately with saving in both sectors, leaving in each case a financial surplus, the sum of which represents the improvement in the country's net foreign assets position.

The expansion in private saving was accounted for mainly by the household sector. The increase achieved by enterprises, while not negligible, was not sufficient to compensate for the decline that had occurred in 1959. With regard to investment the reverse was the case. Investment by households showed only a small rise in 1960 and remained slightly below the 1958 level (in current francs). Investment by non-financial enterprises, however, made a marked recovery after the previous year's decline and reached a record level. Their financial deficit, at roughly NF 13 milliard, was also at an unprecedented level and corresponded approximately to the household sector's financial surplus, including savings through life assurance.

Saving, investment and financial surplus or deficit.

Countries and items	Private sector		Public sector		Total	
	1959	1960	1959	1960	1959	1960
in millions of national currency units						
<b>France</b>						
Net saving . . . . .	20,120	24,360	5,750	6,470	25,870	30,830
Net investment . . . . .	19,860	24,290	5,200	5,840	25,060	30,130
Financial surplus or deficit (—) . .	260	70	550	630	810	700
<b>Germany</b>						
Net saving . . . . .	31,390	34,330	14,170	19,300	45,560	53,630
Net investment . . . . .	33,035	41,040	7,625	8,660	40,660	49,700
Financial surplus or deficit (—) . .	- 1,645	- 6,710	6,345	10,640	4,700	3,930
<b>Netherlands</b>						
Net saving . . . . .	7,170	8,230	750	920	7,920	9,150
Net investment . . . . .	4,730	6,400	1,370	1,540	6,100	7,940
Financial surplus or deficit (—) . .	2,440	1,830	- 620	- 620	1,820	1,210
<b>United Kingdom</b>						
Net saving . . . . .	1,513	2,227	490	278	1,990*	2,292*
Net investment . . . . .	1,463	2,146	476	490	1,939	2,636
Financial surplus or deficit (—) . .	50	81	14	- 212	51*	- 344*

\* The savings and the financial surplus or deficit totals for the United Kingdom include a negative residual error of £13 million in 1959 and of £213 million in 1960.

Note: Net saving includes all capital transfers and thus corresponds to the total amount of funds available for investment. Public corporations are included in the private sector.

In the public sector, public authorities other than the state invested in excess of their saving and the resultant financial deficit was the equivalent of just over half of the central government's financial surplus of NF 1.4 milliard. Actual budget data differ from those in the national accounts in that they include a number of transfer items and below-the-line net lendings to other sectors. In 1960 both the revenue and the total expenditure of the central government rose more than was estimated in the original budget; the result, however, was a smaller overall deficit than had been anticipated, as, while high economic activity and wages led to increased revenue, expenditure on investments fell somewhat short of expectations. It seemed possible, therefore, to grant some tax concessions. In July 1960 a three-year fiscal programme was adopted which provides for a gradual easing of fiscal pressure.

France: Government finances.

Items	1959	1960	1961 estimates
	in milliards of new francs		
<b>Expenditure</b>			
Above the line . . . . .	58.4	59.7	62.9
Below the line (net) . . . . .	6.8	6.7	6.5
<b>Total</b> . . . . .	<b>65.2</b>	<b>66.4</b>	<b>69.4</b>
<b>Revenue</b> . . . . .	<b>58.9</b>	<b>62.3</b>	<b>62.5</b>
<b>Deficit (—)</b> . . . . .	<b>— 6.3</b>	<b>— 4.1</b>	<b>— 6.9</b>

In Germany saving and investment both rose substantially in 1960. Divergent movements occurred, however, in the private and the public sectors. Whereas in the former saving increased less than investment, in the latter the contrary was the case, so that, while the financial deficit of the private sector widened from DM 1.6 to 6.7 milliard, the surplus of the public authorities amounted to DM 10.6 milliard, compared with DM 6.3 milliard in 1959. In the private sector the saving of households rose more than that of enterprises: in 1960 the latter were net borrowers to the extent of DM 23.4 milliard, which is more than half the total of their net domestic investment. A large part of the public authorities' financial surplus was thus absorbed by the private sector's borrowing, mostly for investment in housing. In the Federal

Germany: Cash results of the Federal budget.

Items	Calendar year		
	1958	1959	1960
	in millions of Deutsche Mark		
<b>Revenue</b> . . . . .	<b>31,300</b>	<b>33,900</b>	<b>39,300</b>
<b>Expenditure</b> . . . . .	<b>31,800</b>	<b>39,300</b>	<b>40,800</b>
<b>Surplus or deficit (—)</b> . . . . .	<b>— 500</b>	<b>— 5,400</b>	<b>— 1,500</b>
<b>of which</b>			
<b>Domestic</b> . . . . .	<b>+ 2,100</b>	<b>+ 900</b>	<b>+ 2,800</b>
<b>Foreign</b> . . . . .	<b>— 2,600</b>	<b>— 6,300</b>	<b>— 4,300</b>

budget, direct investment and lending to the economy are not shown separately, but figures are available to show how much of the overall deficit is due to domestic transactions and how much to the Federal Government's transactions with foreign countries (advance payments for arms purchases, indemnifications, etc.).

In the calendar year 1960, thanks to a rise in revenue well above the estimates, the overall cash deficit was substantially reduced and the domestic component of the final result showed a surplus three times as large as in 1959. This contributed towards a sterilisation of funds, which acted as a counter-cyclical factor. In the middle of 1960 moderate fiscal measures were taken which included a reduction in depreciation allowances and stricter treatment, for tax purposes, of gifts intended as a means of publicity and contributions to private pension funds.

In the Netherlands, too, there was a marked increase in total saving in 1960 and an even larger one in investment. The overall financial surplus, which corresponds to a net increase in external assets, was reduced, on a transactions basis, from Fl. 1.8 milliard in 1959 to Fl. 1.2 milliard in 1960. The only significant changes occurred in the private sector, where investment rose much more than saving. In the public sector the local authorities were obliged to borrow both because of a current deficit and for investment purposes, while the central government's financial surplus once more reached the very high level attained in 1959.

The preliminary data on the results of the state budget for 1960 show a decrease in the overall deficit. This was due to the fact that the rise in fiscal revenue which accompanied the economic expansion and the decline in net capital outlay together more than offset the rise in current expenditure. Budget policy in the Netherlands has two parallel objects from a long-term viewpoint: to lighten the burden of taxation and to lower the ratio of expenditure to national income. Its cyclical purpose is to exercise a compensating influence on the spending of the private sector. In 1960 this was effected, in part, by a reduction in tax concessions in respect of investments and greater strictness in the granting of housing subsidies. Furthermore, in addition to measures limiting consumer credit, a policy of borrowing in the market in excess of actual needs was pursued, the funds so withdrawn being sterilised. In April 1961 a

decision was taken which should practically bring to an end the greater part of non-subsidised house-building; the construction of subsidised dwellings will, on the contrary, be increased somewhat.

The upsurge in saving in the United Kingdom in 1960 was insufficient

Netherlands: Central-government budget.

Items	1959	1960	1961
	preliminary	preliminary	estimates
in milliards of florins			
<b>Expenditure</b>			
Current . . . . .	6.8	7.6	7.8
Capital (net) . . . . .	1.9	1.3	1.5
<b>Total . . . . .</b>	<b>8.7</b>	<b>8.9</b>	<b>9.3</b>
<b>Revenue . . . . .</b>	<b>7.8</b>	<b>8.4</b>	<b>9.1</b>
<b>Deficit (-) . . . . .</b>	<b>- 0.9</b>	<b>- 0.5</b>	<b>- 0.2</b>

to offset the 36 per cent. rise in net domestic investment in fixed assets and stocks, the outcome being a rather severe deterioration in the country's external position. In the table on page 47 the saving/investment results of the public corporations (mainly the nationalised industries) are included in the private sector. Capital depreciation of the public corporations sector continued to exceed, though to a smaller extent than in previous years, gross saving, while investment outlay declined somewhat. The personal sector's saving in 1960 was almost twice as high as a year before and, notwithstanding the substantial increase in personal investment, the sector's financial surplus rose from £33 to 336 million. In the company sector it was domestic investment that doubled and, in spite of an increase in retained profits, the financial surplus of companies declined from £590 million in 1959 to £230 million in 1960. In the government sector the most important change is to be found in the figures for the central government, whose saving in 1960, at £230 million, was little more than half the amount for the preceding year. Even so, it was more than sufficient to cover the direct investment of the central government itself, though not enough to provide as large a part of the financial needs of the public corporations and other below-the-line Exchequer expenditure as in 1959. At the beginning of 1960 pressure on resources was increasing in the United Kingdom, and a series of restraining measures were taken by the authorities. These measures were mostly confined to the credit and monetary sphere, while the budgetary contribution was limited to planning for an overall deficit not exceeding that of the previous fiscal year. In fact the deficit turned out to be nearly £80 million higher.

The estimates for 1961-62 and the measures announced in connection with the budget are evidence of a resolve to make more use of the budget as an economic regulator in conjunction with credit policy. In the first place, the budget estimates provide for an above-the-line surplus of over £500 million, an amount almost sufficient to cover the net outlay below the line, so that the overall deficit is reduced to about £70 million, i.e. less than one-fifth of that for 1960-61. Secondly, the Chancellor of the Exchequer has asked for authority to adjust consumer taxes upwards or downwards at any time by a maximum

of 10 per cent. in either direction. This would allow revenue to be increased or decreased by up to about £200 million. He also asked for powers to impose a payroll tax on employers (subject to an upper limit of 4s. per employee per week) which, while providing the means, if occasion demands, for raising a further £200 million of revenue, would also act as

United Kingdom: The budget.

Items	Financial year		
	1959-60	1960-61	1961-62
	Actual		Estimates
	in millions of £ sterling		
<b>Expenditure</b>			
Above the line . . . . .	5,244	5,787	6,002
Below the line (net) . . .	700	541	575
<b>Total . . . . .</b>	<b>5,944</b>	<b>6,328</b>	<b>6,577</b>
<b>Revenue . . . . .</b>	<b>5,630</b>	<b>5,934</b>	<b>6,508</b>
<b>Overall deficit (—)</b>	<b>— 314</b>	<b>— 394</b>	<b>— 69</b>



an incentive to employers to economise in the use of manpower. While the sharp reduction in the overall budget deficit and, in particular, the sizable above-the-line surplus are intended to moderate the growth of domestic demand, the new powers are sought in order to provide the government with additional economic regulators and to increase its capacity for adjusting trends in the economy, without submitting the economy itself to too violent shocks.

Between 1959 and 1960 the United States shifted from a deficit in its current balance of payments to a surplus. The change amounted to around \$4 milliard, which necessarily corresponds to a similar movement in the relationship between aggregate saving and domestic investment. With gross domestic investment at about the same level as in 1959, there was an increase in personal saving and in depreciation allowances as well as a shift from deficit to surplus in government accounts which together more than offset the fall in retained corporate profits.

United States: Government revenue and expenditure.

Items	1959			1960		
	Federal	State and local	Total	Federal	State and local	Total
on a national accounts basis, in milliards of dollars						
<b>Revenue</b>						
Taxes . . . . .	74.7	37.0	111.7	77.9	39.2	117.1
Social insurance contributions . . . . .	14.7	2.6	17.3	17.4	2.9	20.2
Transfers . . . . .	—	6.6	6.6	—	6.1	6.1
Total revenue . . .	69.5	46.2	135.7	95.3	48.0	143.3
<b>Expenditure</b>						
Purchases of goods and services . . . . .	53.3	43.9	97.1	52.4	47.3	99.7
Transfers and grants . . . . .	29.6	4.7	33.4	30.0	4.9	34.9
Other expenditure . . . . .	9.0	— 1.3	7.7	9.8	— 1.3	8.5
Total expenditure . . . . .	90.9	47.4	138.3	92.3	50.9	143.2
Surplus or deficit (—)	— 1.4	— 1.1	— 2.5	3.0	— 2.9	0.2

Within the government sector, state and local governments increased their deficit in 1960 from \$1.1 to 2.9 milliard, while the Federal accounts moved from a deficit of \$1.4 milliard to a surplus of \$3.0 milliard. Federal budget policy for the fiscal years ending June 1960 and June 1961 was determined largely by the desire to forestall inflationary pressures which accompanied the final phase of the 1958-59 upswing and which were reflected in a deterioration in the balance-of-payments position. In the course of 1960, however, the restraining effect of the budget on the economy was lessened, not only because of the automatic response of certain budget items to declining activity (e.g. higher transfer outlays) but also because of some stepping-up of government purchases of goods and services as the recession developed. Early estimates (mid-January 1961) of the results of the Federal budget for the fiscal years ending

June 1961 and June 1962 indicated surpluses of \$0.1 and 1.5 milliard respectively. By the end of March these estimates had been revised to show deficits of \$2.2 and 2.8 milliard, the change being due in part to smaller tax receipts (following the decline in corporate profits) but mainly to increased expenditure resulting both from earlier decisions and from action taken by the new Administration. By and large, the measures so far taken, in addition to increased outlays for social purposes, seem to be directed towards a more efficient pattern of both taxation and expenditure with a view to stimulating new investment, reducing tax loop-holes and, in some cases, improving the balance-of-payments position. The Administration has, however, already indicated its intention of proposing in the 1961-62 budget some reductions in income tax in order to prevent an excessive increase in tax revenue which might accompany economic expansion from checking such expansion before the resources of the economy are fully employed.

\* \* \*

After recognising the value of flexibility in monetary and credit policies, many industrialised countries throughout the world have become aware of the need for fiscal policy to play a greater part in regulating the economic cycle and promoting long-term growth. Some countries have already devised mechanisms designed to influence both the volume and the composition of demand, while fostering gains in productivity and, consequently, a rise in living standards together with price stability. It can reasonably be anticipated that 1961 will go on record as a year of expansion on both sides of the Atlantic — as a result of recovery or of continued boom. In such circumstances close attention will have to be paid to the development of prices and costs. The new life injected into budget policy in certain countries should greatly assist credit policy in its task of ensuring monetary stability and sustained growth.

## II. MONEY, CREDIT AND CAPITAL MARKETS.

Three interrelated problems influenced monetary policies in both the United States and a number of western European countries in the past year. The first of these, which had its origin, in part, in the different phasing of the business cycle in the two areas and a consequent emergence of large interest rate differentials, was the need to discourage disruptive movements of short-term capital. To this end attempts were made, beginning particularly in the autumn of 1960, to modify the structure of interest rates. Short-term rates were adjusted increasingly in the light of external considerations, while greater emphasis was placed on long-term interest rates as a means of influencing domestic liquidity and economic activity. However, the success of these attempts, having as they do to work against the tendencies of investors to shift funds to financial assets offering the most favourable yields, has to date been limited, and their potential efficacy remains to be tested more fully.

Secondly, the sizable reserve movements that did in fact occur affected the credit base of various countries to such a degree that, as a prerequisite for effective credit control, the authorities usually felt called upon to take extensive offsetting measures. In 1958 and most of 1959 the need for offsetting operations was temporarily obviated in various western European countries, in part because the credit institutions were able to use their excess accruals of liquidity to repay central-bank indebtedness and to acquire money-market assets abroad and at home. In late 1959 and much of 1960, however, as domestic credit demands rose in these countries, a number of monetary authorities had recourse to more positive instruments of liquidity control, in particular to increases in reserve requirements and funding operations. A further phase in this development may be seen in a variety of more direct measures taken by Germany, Switzerland and the Netherlands in 1960 with a view to preventing the inflow or reflux of foreign exchange. In the United States the effects on bank reserves of the large intermittent outflow of gold since 1957 was offset by open-market purchases of securities by the Federal Reserve System and reductions in reserve requirements.

Thirdly, there was the need to influence the flow of domestic credit so as to contribute to full employment, sustained growth and the maintenance of price stability. In various western European countries, particularly those whose reserves had substantially increased in recent years, the problem of credit restraint in 1960 was complicated by the already high degree of private (non-bank) liquidity, as well as by the fact that the credit institutions, despite the extensive efforts of the authorities to bring their liquidity under better control, continued to hold an appreciable volume of mobilisable assets. Under these conditions, credit restraint policies, where they were applied, helped to bring about a decline in domestic liquidity and a rise in the cost

of credit but, generally speaking, they cannot be said to have exerted a markedly restrictive effect on demand. On the contrary, the private sector's recourse to domestic and foreign credit and the drawing-down of liquid assets greatly facilitated the large increases in demand that occurred in most of these countries.

The concurrence in the United States of a recession and a large gold outflow, while in a number of western European countries economic expansion was accompanied by a strengthening of the reserve position, clearly confronted the authorities with a dilemma. Viewed in terms of its monetary implications, this dilemma expressed itself in the fact that the movement of reserves called for an interest rate policy at variance with that indicated by domestic considerations. It should not be concluded, however, that such a conflict is an unavoidable difficulty weighing against the active use of monetary instruments under conditions of convertibility. What it shows, once again, is that suitable fiscal and price/wage policies, operating within a framework of realistic exchange rates, are prerequisite to an effective monetary policy. Under such conditions the short-term capital movements arising out of active, autonomous monetary policies and differentiated interest rates would tend as a rule to compensate for opposite movements in the balance of payments on current account. But, failing these conditions, there are narrow limits to the extent to which monetary policy can be adapted to assume the abnormal burdens imposed upon it.

#### **Monetary policy and the structure of interest rates.**

With regard to individual countries, the interplay of the various factors mentioned above, and the different policy responses to them, may best be viewed against the background of changes in the pattern of interest rates.

*Discount rate policy.* In the United States the discount rate was reduced in two stages from 4 to 3 per cent. in June and August 1960 as signs of recession were confirmed, but subsequently, because of the desire to sustain the level of short-term rates in New York, no further downward adjustments were made, despite a progressive decline in output. On the other hand, Germany, which had raised its discount rate in two steps from  $2\frac{3}{4}$  to 4 per cent. in the autumn of 1959, refrained during the first five months of 1960, when money-market yields were declining in the United States, from further upward adjustments. At the beginning of June, by which time the gap between money-market rates in New York and Germany had already become substantial, the authorities deemed an increase in the rate to 5 per cent. unavoidable, but supplemented this change with selective measures intended to halt the inflow of foreign exchange. Later, after domestic credit restraint had proved unsuccessful owing to the inflow of various types of funds from abroad, the Bundesbank reversed its discount policy, reducing the rate in three steps from 5 to 3 per cent. between November 1960 and May 1961.

Changes in official discount rates since 1958.

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 %
<b>Austria</b>		<b>Germany (contd.)</b>		<b>Spain</b>	
17th November 1955 . . . . .	5	23rd October 1959 . . . . .	4	22nd July 1957 . . . . .	5
23rd April 1959 . . . . .	4½	3rd June 1960 . . . . .	5	3rd August 1959 . . . . .	6½
17th March 1960 . . . . .	5	11th November 1960 . . . . .	4	1st April 1960 . . . . .	5½
		20th January 1961 . . . . .	3½		
		5th May 1961 . . . . .	3		
<b>Belgium</b>		<b>Greece</b>		<b>Sweden</b>	
25th July 1957 . . . . .	4½	1st May 1956 . . . . .	11	11th July 1957 . . . . .	5
27th March 1958 . . . . .	4½	1st April 1959 . . . . .	10	3rd May 1958 . . . . .	4½
5th June 1958 . . . . .	4	1st October 1959 . . . . .	9	15th January 1960 . . . . .	5
3rd July 1958 . . . . .	3½	1st April 1960 . . . . .	7		
28th August 1958 . . . . .	3½	1st November 1960 . . . . .	6	<b>Switzerland</b>	
8th January 1959 . . . . .	3½			15th May 1957 . . . . .	2½
24th December 1959 . . . . .	4			26th February 1959 . . . . .	2
4th August 1960 . . . . .	5				
		<b>Iceland</b>		<b>Turkey</b>	
<b>Denmark</b>		2nd April 1952 . . . . .	7	6th June 1956 . . . . .	6
23rd June 1954 . . . . .	5½	22nd February 1960 . . . . .	11	29th November 1960 . . . . .	9
19th April 1958 . . . . .	5	29th December 1960 . . . . .	9		
15th August 1958 . . . . .	4½			<b>United Kingdom</b>	
19th September 1959 . . . . .	5	<b>Ireland</b>		19th September 1957 . . . . .	7
26th January 1960 . . . . .	5½	30th September 1957 . . . . .	6	20th March 1958 . . . . .	6
23rd May 1961 . . . . .	6½	28th March 1958 . . . . .	5½	22nd May 1958 . . . . .	5½
		31st May 1958 . . . . .	5	19th June 1958 . . . . .	5
<b>Finland<sup>1</sup></b>		2nd September 1958 . . . . .	4½	14th August 1958 . . . . .	4½
18th April 1956 . . . . .	8	28th November 1958 . . . . .	4½	20th November 1958 . . . . .	4
1st October 1958 . . . . .	7½	29th January 1960 . . . . .	4½	21st January 1960 . . . . .	5
1st March 1959 . . . . .	6½	30th June 1960 . . . . .	5½	23rd June 1960 . . . . .	6
		3rd November 1960 . . . . .	5½/14 <sup>2</sup>	27th October 1960 . . . . .	5½
				8th December 1960 . . . . .	5
<b>France</b>		<b>Italy</b>		<b>United States</b>	
13th August 1957 . . . . .	5	6th April 1950 . . . . .	4	15th November 1957 . . . . .	3
16th October 1958 . . . . .	4½	7th June 1958 . . . . .	3½	24th January 1958 . . . . .	2½
5th February 1959 . . . . .	4½			7th March 1958 . . . . .	2½
23rd April 1959 . . . . .	4	<b>Netherlands</b>		18th April 1958 . . . . .	1½
6th October 1960 . . . . .	3½	16th August 1957 . . . . .	5	12th September 1958 . . . . .	2
		24th January 1958 . . . . .	4½	7th November 1958 . . . . .	2½
<b>Germany</b>		25th March 1958 . . . . .	4	6th March 1959 . . . . .	3
19th September 1957 . . . . .	4	14th June 1958 . . . . .	3½	29th May 1959 . . . . .	3½
17th January 1958 . . . . .	3½	15th November 1958 . . . . .	3	11th September 1959 . . . . .	4
27th June 1958 . . . . .	3	21st January 1959 . . . . .	2½	10th June 1960 . . . . .	3½
10th January 1959 . . . . .	2½	16th November 1959 . . . . .	3½	12th August 1960 . . . . .	3
4th September 1959 . . . . .	3				

<sup>1</sup> Maximum discount rate, excluding penalty charges. <sup>2</sup> As from November 1960 the rediscount rate for Exchequer bills, fixed monthly. The rate fixed on 5th May 1961 was 4½ per cent.

The Netherlands, in 1960, consistently pursued a policy of low short-term interest rates in order to encourage the export of excess liquid funds. While the discount rate was left at 3½ per cent., the market rate on Treasury bills was allowed to go down from 2½ per cent. in January 1960 to about 1 per cent. in the spring of 1961. Switzerland, too, in keeping to the 2 per cent. rate introduced in February 1959, was motivated by the desire to stimulate the investment of short-term funds abroad. In Belgium the increase in the discount rate in August 1960 was prompted by the outflow of short-term capital to which the Congo situation had given rise. In the United Kingdom the discount rate adjustments from 4 to 5 per cent. in January and to 6 per cent. in June 1960 were made primarily for domestic reasons, but they also served external needs by attracting short-term capital, which compensated for the deterioration in the current-account balance of payments. Subsequently, the strength of the reserve position and the desire to narrow the

yield gap between London and New York were decisive factors causing the authorities to reduce Bank rate to  $5\frac{1}{2}$  per cent. in October and again to 5 per cent. in December. In other western European countries domestic money markets are less closely linked with other centres. In Italy and France discount rate policy was partly conditioned by the desire to bring down long-term interest rates; Italy's discount rate remained unchanged at  $3\frac{1}{2}$  per cent., while France, in October 1960, lowered its rate by  $\frac{1}{2}$  per cent. to the same level. In the Scandinavian countries, after the  $\frac{1}{2}$  per cent. increases in Sweden and Denmark in January 1960, no further changes occurred until May 1961, when the latter country raised its rate again by a full point.

*Reserve requirements.* The widespread recourse to changes in reserve requirements in 1960 stemmed mainly from the need to offset the effects of exchange reserve movements on bank liquidity. In certain cases, however, the use of this technique was partly motivated by the desire to weaken, to the small extent possible, the link between credit availability and the short-term interest rate structure. In the United States the substantial reductions in reserve requirements in the summer and autumn of 1960, although mainly taking the form of technical modifications carried out in accordance with special legislation enacted in 1959, were timed so as to help offset the effects of the gold outflow. However, for the additional purpose of easing the banks' reserve positions, these changes were also thought to be preferable to discount rate adjustments or open-market operations, which would have had a more direct impact on short-term rates. In Germany the three increases in reserve requirements (and the one reduction in rediscount quotas) between January and May 1960, when the discount rate remained unchanged, were similarly motivated, as was the reverse procedure in late 1960 and early 1961, when, prior to the revaluation in March, the discount rate was reduced from 5 to  $3\frac{1}{2}$  per cent., while reserve requirements were only slightly eased. In the credit measures of 2nd June 1960, however, when rediscount quotas were reduced and reserve requirements against increases in liabilities above the March-May average were made subject to the maximum permissible rates, the discount rate was also raised.

In the United Kingdom the first call for special deposits under the scheme originally announced in July 1958 was made in late April 1960 and was followed by a second call towards the end of June, at which time Bank rate was put up too. Combined, the two calls for special deposits required the London clearing banks to keep an amount equivalent to 2 per cent. of their total gross deposits with the Bank of England, while for the Scottish banks the figure was 1 per cent. The Netherlands, confronted with a continuing inflow of gold and foreign exchange, also increased its reserve requirements, first from 7 to 8 per cent. in July 1960 and then to 9 per cent. in January 1961. The increases might well have been greater had it not been for the authorities' policy of keeping short-term money-market rates low and declining, thus encouraging the banks further to increase their already large holdings of claims against foreigners. Moreover, the credit institutions

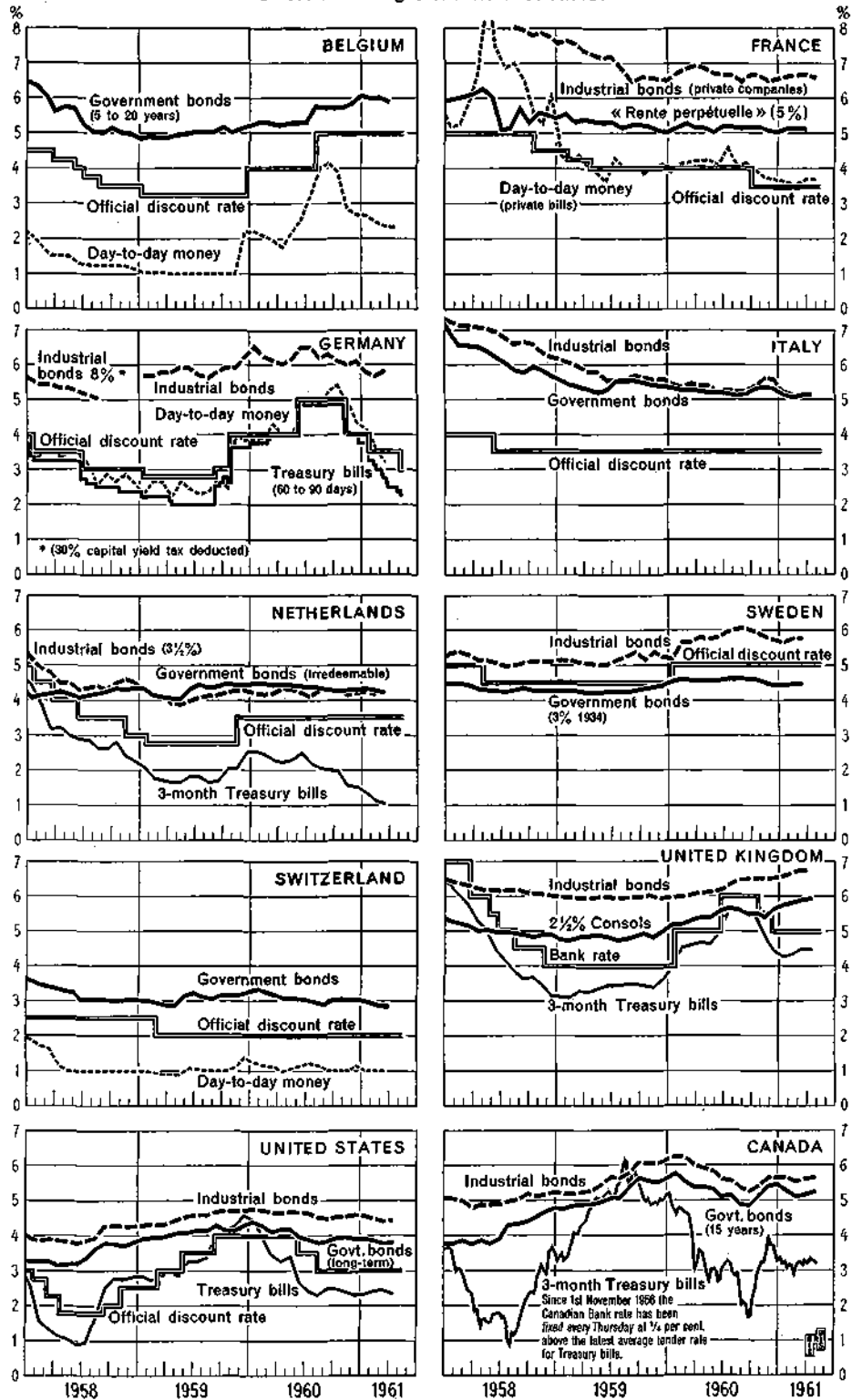
were aware that, in consequence of a gentleman's agreement concluded in the spring of 1960, large repatriations of short-term assets could lead to a demand by the authorities for the placing of special deposits with the central bank.

In Austria, where the central bank's gold and exchange reserves had risen considerably in 1958 and 1959, the banks' reserve requirements were increased with effect from 1st April 1960. In Sweden, where government borrowing from the banking system had in 1959 been an important source of excess domestic liquidity, the commercial banks' minimum liquidity ratios with respect to government-security holdings, recommended by the central bank but not strictly enforceable, were increased in January 1960. In addition, in order to bring about a postponement of non-essential investment, companies were encouraged by means of special tax privileges to make substantial deposits of liquid funds with the central bank for specified periods. In Italy, Belgium and France the existing requirements with respect to the proportion of deposits which the banks must invest in government securities continued to absorb additional funds, but these ratios remained unchanged in 1960. In France a new system of requirements ("coefficients de trésorerie") was introduced in January 1961. Under this scheme the old obligation with respect to Treasury bills was reduced from 25 to 20 per cent. but at the same time a new requirement of 10 per cent. was imposed, which can be satisfied by any desired combination of Treasury bills, cash balances, rediscountable medium-term paper and paper representing cereal and export credits.

*Debt management and open-market operations.* In co-ordination with other monetary instruments, debt management and open-market operations were used more actively and flexibly in 1960 and early 1961 to control liquidity and to achieve interest rate objectives. In the United States substantial net acquisitions of open-market securities throughout most of 1960 were intended both to help offset the gold outflow and to ease the availability of domestic credit. In late October, in recognition of the need to minimise the decline in short-term market rates and hence the outflow of gold, the Federal Reserve authorities broadened their transactions in securities to include those with maturities of up to fifteen months. In February 1961 the new policy of more extensive dealings in open-market securities, even in those with maturities exceeding five years, was formally announced. Meanwhile, during the period of heavy gold outflow the Treasury concentrated its borrowing on the short-term sector of the market. Partly because of the support they were giving to short-term rates, however, the authorities were not wholly successful in bringing down long-term rates, and rates at both ends of the market remained well above those reached in the comparable phase of the preceding cycle.

In Germany sales of short-term paper by the Bundesbank were — except in the first quarter when net purchases constituted a partial offset to large increases in reserve requirements — a factor helping to sterilise the heavy inflows of foreign exchange in 1960. In this context arrangements were made in the late summer for the placing of DM 1 milliard of

Short and long-term interest rates.





special two-year securities with the credit institutions. Under the influence of general credit restraint, long-term interest rates rose appreciably between the autumn of 1959 and the summer of 1960 but thereafter, assisted by the authorities' cautious reversal of policy late in the year, drifted downward again. They moved down further in the spring of 1961 as a consequence of the revaluation of the Deutsche Mark and a further easing of monetary restraint.

In the United Kingdom, where heavy demand for credit led the banks to make substantial sales of government securities in the early months of 1960, the authorities permitted a marked but orderly upward adjustment of long-term rates in the first half of the year. Increasingly, as the inflow of foreign capital accelerated and consumer demand slowed down, a vigorous policy of funding was pursued, over £550 million of government securities, mostly at long term, being sold to non-bank holders (including non-official overseas holders) in the second half of the year. Long-term rates at first edged downward from their mid-year level but recovered in late 1960, at a time when Treasury bill rates were declining and Bank rate was twice reduced, and then rose gradually to new highs in early 1961.

In the Netherlands, too, in combination with the policy of low short-term rates, extensive long-term borrowing was undertaken, partly by the central government, which as a means of liquidity control used the proceeds to improve its balance at the central bank, and partly by the Bank for Netherlands Municipalities in a continuing effort to consolidate the outstanding short-term debt of local authorities. Hence, despite a large external surplus in 1960, long-term rates declined only slightly. In Switzerland the authorities achieved a similar result by continuing to leave the capital market open to foreign issues, which reached a record level in 1960. Moreover, the Confederation placed part of its cash-budget surplus abroad, made an advance repayment of its E.P.U. indebtedness to Germany and built up its balances with the National Bank. The Federal Government also co-operated with the National Bank in the latter's efforts to control liquidity by allowing it to dispose of a special issue of Treasury certificates to the banks. In Denmark financial restraint continued in 1960 to depend primarily upon the attainment of a large overall budget surplus by the central government, which helped to absorb market funds by building up its deposits with the central bank.

Bank financing of cash-budget deficits had in 1959 and earlier been an important source of liquidity creation in both Austria and Sweden, which attacked the problem in 1960 by achieving a substantial reduction in the size of their deficits and by attempting to broaden the market for government securities. The Swedish authorities, having recognised the need for widening the narrow gap between deposit rates and security yields, launched a successful drive to place securities outside the banking system. Less success was achieved in Austria, where the banks had to take up an unexpectedly large part of new government issues during the year. In Belgium the government was able in 1960 to cover a greater proportion of its continuing large budget

deficit through recourse to the capital market, but it nevertheless had to borrow substantially at short term from abroad in order to counterbalance both an exchange outflow and a running-off of domestic Treasury bill holdings. In the summer of 1960, under the influence of events in the Congo, the rate on long-term government bonds moved abruptly upward to a new level.

In contrast to other countries of western Europe, Italy and France have given relatively free play to the liquidity-enhancing effects of their large reserve gains over the past three years. In Italy substantial reserves of manpower, high productivity gains and a liberal import policy enabled the authorities to take a calculated risk with respect to inflation, which in fact did not materialise. Despite the large inflow of foreign exchange between 1958 and 1960, no offsetting measures of importance were undertaken until the latter year, when, first, the Exchange Office sold to the banks sufficient foreign exchange to permit them to balance their exchange positions and, secondly, the Treasury repaid indebtedness to the central bank with part of the funds raised on the capital market. In France long-term rates were kept at a relatively low level, partly because the Treasury did not have recourse to the capital market, but partly also because deposit and Treasury bill rates, together with the discount rate, were concertedly adjusted downward for the first time for a number of years.

The attainment of equilibrating movements of capital is a matter not only of short-term interest rate differentials but also of relative movements of long-term rates. In retrospect, it seems clear that changes in long-term rates since the peak of the 1957 boom have been broadly equilibratory in character. These rates have risen most in the reserve currency countries, the United Kingdom and the United States, where the reserve position has been weak or weakening; they have changed least in the Scandinavian countries, which typically keep a low level of reserves; and they have declined most in the continental countries, where reserves have increased fastest. One exception has been Germany, but the policy changes of late 1960 and early 1961 represent a belated attempt to move back towards a long-term rate more in keeping with its external position.

#### **The control of liquid assets and the flow of bank credit.**

The impact of policy upon the course of financial activity is reflected in both the rate and the pattern of growth of financial assets and their credit counterpart. A partial, but important, aspect of this picture is shown in the accompanying table, where for 1959 and 1960 the money supply of a number of countries, together with certain of their "near-money" assets in the form of time and savings deposits placed with the credit institutions, is presented in relation to the gross national product.

The supply of money and quasi-money showed an unusual increase in Italy and France, where foreign exchange reserve gains were large,

domestic credit demand strong and credit policies relatively expansive. This was less true in Switzerland, although after the middle of 1960 the stimulus of low interest rates to capital exports was insufficient to counterbalance the effects of the inflow of exchange. In Austria the growth in liquid assets was partly attributable to central-government borrowing from the banking system.

In Germany the expansion of the money supply was restrained by the Bundesbank's large-scale sterilisation of bank funds, higher bank lending rates and an increase in public-authority deposits with the central bank. In the Netherlands and the United Kingdom a similar result was achieved by more limited sterilisation measures combined with heavy funding operations. In Sweden the sale of government securities outside the banking system helped to reduce demand deposits, thereby leading the banks to run down their holdings of government securities as a means of expanding private lending. Finally, in Norway, Denmark and Finland budget surpluses combined with

**Money supply, quasi-money and gross national product.<sup>1</sup>**

Countries	Years	Money supply			Quasi-money <sup>2</sup>	Money and quasi-money	Gross national product (at market prices)	Money supply	Money and quasi-money
		Currency	Demand deposits	Total					
		in milliards of national currency units							
Austria . . . . . (schillings)	1959	16.8	13.8	30.6	31.3	61.9	134.6	22.8	46.0
	1960	18.0	14.5	32.5	37.8	70.3	148.2	22.0	47.4
Belgium . . . . . (francs)	1959	119.6	91.0	210.6	33.9	244.5	591.1	35.6	41.4
	1960	121.9	93.1	215.0	41.0	256.0	615.0*	35.0	41.6
Denmark . . . . . (kroner)	1959	2.1	7.3	9.5	9.6	19.1	41.1	23.1	46.4
	1960	2.3	7.6	10.1	10.5	20.5	44.2	22.8	46.5
Finland . . . . . (markkas)	1959	59.2	79.3	138.5	403.7	542.2	1,363	10.2	39.8
	1960	64.2	80.8	145.0	478.4	623.4	1,547	9.4	40.3
France . . . . . (new francs)	1959	34.8	43.5	78.3	4.9	83.2	259.9	30.1	32.0
	1960	37.1	51.2	88.3	6.6	95.0	285.0	31.0	33.3
Germany . . . . . (Deutsche Mark)	1959	18.6	22.5	41.1	48.2	89.3	247.9	16.6	36.0
	1960	20.1	24.7	44.8	57.1	101.9	275.8	16.2	36.9
Italy . . . . . (lire)	1959	2,209	3,691	5,900	4,369	10,269	17,477	33.8	58.8
	1960	2,398	4,270	6,668	5,009	11,677	19,010	35.1	61.4
Netherlands . . . . . (florins)	1959	4.5	5.8	10.4	11.1	21.5	38.7	26.8	55.4
	1960	4.8	6.1	10.9	13.0	23.9	42.5	25.7	56.3
Norway . . . . . (kroner)	1959	3.4	3.6	7.0	10.4	17.4	33.2	21.7	52.6
	1960	3.5	3.7	7.3	11.2	18.4	35.6	20.4	51.8
Sweden . . . . . (kronor)	1959	5.7	4.0	9.7	33.9	43.6	63.2	15.4	69.0
	1960	6.0	3.9	9.9	35.8	45.7	68.0	14.6	67.3
Switzerland . . . . . (francs)	1959	6.3	10.4	16.7	24.1	40.9	34.0	49.2	120.2
	1960	6.7	11.1	17.8	26.5	44.3	36.6	48.5	121.1
United Kingdom . . . . . (pounds)	1959	2.0	3.9	5.9	3.4	9.3	23.9	24.7	38.9
	1960	2.1	4.0	6.1	3.5	9.6	25.2	24.2	38.2
United States . . . . . (dollars)	1959	28.9	113.4	142.3	65.2	207.5	482.1	29.5	43.0
	1960	29.0	111.3	140.3	68.1	208.4	503.2	27.9	41.4

<sup>1</sup> The figures for money supply (notes, coins and demand deposits) and quasi-money are monthly averages for the year, except for Norway and Finland, for which the averages are based on quarterly data. <sup>2</sup> Time and savings deposits of deposit money banks, as defined in the I.M.F. publication "International Financial Statistics".  
\* Estimate.

some attendant sterilisation of funds retarded the growth of liquid assets in 1960, an effect accentuated in the latter two countries by a slowing-down of the foreign exchange inflow.

In 1959 the acceleration of bank credit in most western European countries was accounted for mainly by trade and commerce rather than by industrial firms, whose strong liquidity position had reduced their need to borrow. In 1960, however, when heavy restocking was under way, industry's rising demand for credit contributed to the further notable increase in bank lending. In the United Kingdom and Sweden, partly as the cumulative effect of restraint measures, bank-credit expansion tapered off as the year progressed. In other western European countries the opposite trend generally prevailed.

In the United States the demand for bank credit in 1960 was greatly moderated by the sharp change from inventory accumulation to liquidation, as well as by a slowing-down in the rate of house-building and a smaller net growth in consumer credit. The money supply declined in the early months of the year and, despite an easing of credit policy, recovered only slowly thereafter, partly because Treasury bills and other money-market assets continued to attract idle funds. What is more, time deposits, the interest rates on which remained relatively unchanged, increased substantially during the year.

#### **Capital-market activity.**

It is difficult to generalise with respect to capital-market trends, as both the volume and the composition of new issues were under the influence of diverse national financial policies. However, the expansion of fixed capital investment in both the United States and western Europe contributed to a relatively high level of new private issues, usually under conditions favourable to share issues, while an improvement in the budget positions of most governments reduced the need, on fiscal grounds, for public issues on the capital market.

Among the countries where liquid assets recorded relatively rapid growth, i.e. France, Switzerland and Italy, it was only in Italy that capital issues rose to a new high level in 1960. In France, as a stimulus to capital investment, the Treasury purposely refrained, for the second consecutive year, from placing a long-term loan on the market. Nationalised industries and semi-public institutions together raised about the same amount of capital as in 1959, but private companies, relying relatively more on their own resources and long-term loans, reduced their new issues in 1960. In Switzerland sizable company profits and liquidity also helped, along with larger debt repayments by the Confederation, to keep net issue activity slightly below the level of 1959, but this was partly offset by the increase in foreign issues on the Swiss market. In Italy, where the Treasury took less funds from the market than in 1959, other issues rose steeply, the expansion of industrial bonds having been favoured by fiscal privileges introduced in 1959.

**Capital market: Net new Issues.**

Countries	Years	Public			Private <sup>1</sup>			Foreign	Total
		State	Local authorities and public bodies	Total	Bonds	Shares	Total		
In milliards of national currency units									
Belgium . . . . .	1959	12.30	19.40	31.70	2.20 <sup>2</sup>	4.80 <sup>2</sup>	7.00 <sup>2</sup>	- 0.60	38.10
	1960	15.90	13.30	29.20	0.90 <sup>2</sup>	6.80 <sup>2</sup>	7.70 <sup>2</sup>	- 1.50	35.40
France <sup>3</sup> . . . . .	1959	—	0.02	0.02	4.43	3.16	7.60	—	7.62
	1960	—	0.02	0.02	4.53	2.37	6.90	—	6.92
Germany . . . . .	1959	0.65	1.29	1.94	6.58	1.38	7.96	0.35	10.25
	1960	0.62	0.56	1.18	3.26	1.91	5.16	0.05	6.39
Italy . . . . .	1959	288	56 <sup>4</sup>	344	316	284	600	—	944
	1960	123	39 <sup>4</sup>	162	631	529	1,160	—	1,322
Netherlands . . . . .	1959	0.59	0.69	1.28	0.14	0.09	0.23	- 0.01	1.50
	1960	0.67	0.69	1.36	0.11	0.18	0.29	- 0.04	1.61
Sweden . . . . .	1959	1.75	- 0.06	1.69	0.78	0.62	1.40	—	3.09
	1960	0.73	0.08	0.82	1.01	0.92	1.93	—	2.75
Switzerland . . . . .	1959	- 0.12	0.14	0.02	0.87 <sup>5</sup>	1.02 <sup>5</sup>	1.89 <sup>5</sup>	0.48	2.39
	1960	- 0.30	0.13	- 0.18	0.92 <sup>5</sup>	0.91 <sup>5</sup>	1.83 <sup>5</sup>	0.56	2.21
United Kingdom . . . . .	1959	- 0.24 <sup>4</sup>	0.05	- 0.20	0.13	0.29	0.41	0.05	0.27
	1960	0.51 <sup>4</sup>	0.05	0.56	0.10	0.36	0.46	0.05	1.07
United States . . . . .	1959	2.79 <sup>6</sup>	7.77	10.56	7.54 <sup>7</sup>	2.56	10.10	0.62	21.28
	1960	0.94 <sup>4</sup>	7.44	8.39	9.29 <sup>7</sup>	2.04	11.33	0.61	20.32

<sup>1</sup> Includes issues of specialised credit institutions and nationalised industries, except in Belgium, where these appear under "public bodies". <sup>2</sup> Includes Congolese companies. 1960 data are provisional and incomplete. <sup>3</sup> Gross issues. <sup>4</sup> Mainly railway bonds. <sup>5</sup> Includes privately-placed issues. <sup>6</sup> Changes in marketable debt, excluding Treasury bills. <sup>7</sup> Includes Federal lending agencies.

Net new issues also reached a high level in the Netherlands, the United Kingdom and Sweden, but in these cases government debt-management operations accounted for a large part of the total. Particularly in the United Kingdom, but to some extent in Sweden, too, private issues were also higher, perhaps partly because of the restraints placed on the availability of bank credit. In Belgium capital-market developments in 1960 were characterised by three large and successful Treasury issues and a notable rise in company share offerings, but there was a more-than-offsetting decline in issues by public bodies and semi-public credit institutions. In Germany the effect of credit restraint in slowing down the formation of deposits found a counterpart not so much in a curtailment of credit-granting as in a decline in bank acquisitions of securities, particularly of mortgage bonds. The expectation of an early reduction in long-term interest rates also seems to have caused some postponement of new issues.

In the United States, despite a rise in fixed capital investment, there was a slight decrease in new capital issues by non-financial corporations, which drew significantly upon their holdings of Treasury bills and other liquid assets. These net sales of short-term securities found an approximate counterpart in the debt-management operations of the Federal Government, which used its cash surplus in 1960 largely to reduce outstanding short-term marketable debt. Issues by the state and local governments dropped off in 1960, while those by sales-finance companies were markedly higher.

**Credit developments in individual countries.**

*The United States.* The net expansion of total credit dropped off from \$61.5 milliard in 1959 to \$39.2 milliard in 1960, according to the flow-of-funds estimates of the Federal Reserve Board. The steepness of this decline may be attributed to three factors. First, as in 1956, the slackening of private credit demand reflected partly a return to more usual levels from the exceptionally high ones that had characterised the preceding year of strong recovery. In both 1960 and 1956, for instance, the growth of consumer credit slowed down to a more sustainable rate, while a typical shift occurred from house-building to investment in plant and equipment, the financing of which depends relatively less upon credit and more upon internal funds and the drawing-down of accumulated liquid assets. Secondly, climaxing the briefest expansionary phase of the post-war period, 1960 was a year of cyclical peak and downswing. In this respect it was therefore comparable also with 1957, as is seen particularly in the low levels to which the demand for bank and mortgage credit declined. Thirdly, the reduced rate of credit expansion in 1960 reflected a marked swing in the Federal Government's position from one of large net borrowing in 1959 to one of net debt repayment in 1960.

**United States: Net increase in credit and equity-market instruments, 1954-60.**

Items	1954	1955	1956	1957	1958	1959	1960
	in milliards of dollars						
Federal obligations <sup>1</sup> . . . .	1.6	0.8	- 5.6	1.1	9.0	11.3	- 2.2
State and local obligations	4.5	3.5	3.2	4.7	5.7	4.9	3.6
Corporate bonds and shares <sup>2</sup> . . . . .	6.3	7.0	8.8	11.5	11.0	9.1	9.0
Mortgages . . . . .	12.3	16.2	14.6	12.1	15.3	19.1	15.4
Consumer credit . . . . .	1.1	6.4	3.6	2.8	0.3	6.3	3.9
Security credit . . . . .	2.1	1.0	- 0.6	- 0.3	1.7	0.1	0.4
Bank loans . . . . .	0.3	8.0	5.9	2.3	1.3	7.9	3.4
Other loans . . . . .	-	1.1	0.9	2.6	2.0	2.8	5.6
<b>Total . . . . .</b>	<b>28.2</b>	<b>44.0</b>	<b>30.7</b>	<b>36.7</b>	<b>46.2</b>	<b>61.5</b>	<b>39.2</b>

<sup>1</sup> Short and long-term.      <sup>2</sup> Including foreign bonds.

The Federal Government, whose budget deficits had necessitated a sharp rise in its borrowing to \$9.0 milliard in the recession year 1958 and a further increase to \$11.3 milliard in 1959, swung abruptly over to a surplus in 1960, which permitted it to repay debt to the extent of \$2.2 milliard. In this respect 1960 was again similar to 1956, except that in the latter year the total swing-round from net borrowing to net debt repayment was less than one-half of that which occurred from 1959 to 1960. One reason for this difference is that from about the middle of 1956 onwards Federal Government cash payments began to rise appreciably, thereby helping to prolong the cyclical upswing, whereas in 1960 such spending was kept at a relatively stable level. Another is that cash receipts rose more in 1960 than in 1956, even though those in the earlier year had reflected both a continuous rise in current personal income and the high level of profits in 1955.

Viewed in the broader framework of inter-sectoral lending and borrowing transactions, the main elements of change between 1959 and 1960 consisted, on the one hand, in a decline in the consumer sector's financial surplus from \$10.6 to 5.1 milliard together with a rise in the corporate sector's financial deficit from \$1.6 to 7.1 milliard and, on the other hand, in a countervailing shift in the Federal Government's position from a financial deficit of \$4.5 milliard to a surplus of \$3.9 milliard. The consumer sector's financial liabilities increased less than in 1959, owing to a reduction in borrowing to finance outlays on housing and durable goods, but this was more than offset by a decline in the net acquisition of financial assets. In the corporate sector, too, a decrease in borrowing (mainly bank loans, mortgages and trade credit) was accompanied by a still greater drop in the net acquisition of financial assets, largely due to the liquidation of almost \$3.0 milliard of Treasury bills and other short-term paper.

In conjunction with the decline in market interest rates, there were considerable changes in the channelling of credit flows in 1960. As shown

**United States: Net change in financial assets and liabilities,  
by sectors, 1959-60.**

Sectors	Years	Net acquisition of financial assets					Less: net increase in financial liabilities	Equals: financial surplus or deficit <sup>4</sup> (—)
		Money <sup>1</sup>	Savings claims <sup>2</sup>	Credit and equity-market claims <sup>3</sup>	Other assets	Total		
in milliards of dollars								
Consumer <sup>5</sup> . . . . .	1959	0.9	21.2	15.3	— 6.1 <sup>6</sup>	31.3	20.7	10.6
	1960	0.2	24.3	2.2	— 5.3 <sup>6</sup>	21.3	16.2	5.1
Corporate . . . . .	1959	0.2	—	5.5	7.7 <sup>7</sup>	13.4	15.0	— 1.6
	1960	— 0.5	—	— 2.2	6.5 <sup>7</sup>	3.8	10.9	— 7.1
Non-corporate and farm. . . . .	1959	— 0.7	—	0.4	—	— 0.4	4.1	— 4.5
	1960	— 0.3	—	0.2	—	— 0.1	2.9	— 3.1
Federal Government . . . . .	1959	0.7	—	3.8	1.8	6.3	10.8	— 4.5
	1960	0.8	—	2.5	0.5	3.9	—	3.9
State and local government . . . . .	1959	0.5	— 0.4	2.9	—	3.1	6.9	— 3.9
	1960	0.2	1.4	1.0	—	2.6	5.9	— 3.4
Commercial banking <sup>8</sup> . . . . .	1959	— 1.1	—	5.6	—	4.6	2.6	2.0
	1960	— 1.7	—	9.9	—	8.3	6.4	1.9
Other financial institutions . . . . .	1959	—	—	24.9	— 0.2	24.6	22.9	1.8
	1960	0.5	—	24.4	0.6	25.5	22.8	2.8
Rest of the world <sup>9</sup> . . . . .	1959	1.2 <sup>10</sup>	— 1.0	3.1	2.4	5.8	4.0	1.8
	1960	1.6 <sup>10</sup>	0.3	1.1	1.0	4.1	4.6	— 0.5
Total <sup>11</sup> . . . . .	1959	1.1	19.2	61.5	6.2	88.7	87.0	1.7
	1960	0.1	26.3	39.2	3.1	69.4	69.7	— 0.3

<sup>1</sup> Currency and demand deposits. <sup>2</sup> 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. <sup>3</sup> Includes Federal obligations, State and local obligations, corporate bonds and shares, mortgages, consumer-credit claims, bank credits and other miscellaneous loans. <sup>4</sup> The financial surplus as defined in this context is the excess of identified changes in financial assets over those in financial liabilities, but it is also conceptually equal, except for statistical discrepancies, to the excess of a sector's saving over its own investment in tangible assets. <sup>5</sup> Includes non-profit-making organisations. <sup>6</sup> Proprietors' net investment in unincorporated business. <sup>7</sup> Mainly gross trade-credit claims. <sup>8</sup> Includes the Federal Reserve System. The entry for money represents net gold purchases. <sup>9</sup> Net change in financial assets or liabilities vis-à-vis the United States. <sup>10</sup> Foreign deposits in U.S. currency and net gold purchases. <sup>11</sup> Includes statistical discrepancies.

in the table, the total acquisition of credit claims by the commercial banking system (including the central bank) rose from \$5.6 milliard in 1959 to \$9.9 milliard in 1960, while the non-bank financial institutions increased their holdings of credit claims in 1960 by \$24.4 milliard, i.e. slightly less than in 1959. Thus there was a sharp reduction in 1960 in the volume of "direct" credit-granting between non-financial sectors. Whereas in 1959 less than one-half of the net acquisition of credit and equity-market claims was accounted for by commercial banks and other financial institutions, in 1960 this proportion jumped to nearly 90 per cent. Much of this change was related to transactions in Federal Government securities. In 1959 the non-financial sectors (including the "rest of the world") purchased approximately \$18 milliard's worth of such securities, the counterpart having been large net sales by the government and a reduction in the banks' holdings. In 1960 this pattern was reversed, the non-financial sectors having unloaded government securities to the extent of \$5.6 milliard, while the banks increased their portfolios and the Federal Government used its surplus to repay debt. As a concomitant change, the non-financial sectors, and particularly the consumer sector, placed a considerably greater volume of funds in time and savings accounts.

Yields on government securities reached new post-war peaks about the beginning of 1960, reflecting, among other things, the tight liquidity position of the banks, whose loan/deposit ratios were higher than at any time since the early 1930s, and a new low in the ratio of the money supply to the gross national product. Nevertheless, as expectations of continued expansion were prevalent, a decline in credit demand, accompanied by an incipient downward movement of interest rates in January and a weakening of stock prices in February, was not at first taken as a signal for an easing of credit restraint policies. In March, however, while remaining on guard against a possible reappearance of inflationary symptoms, the monetary authorities began through open-market operations to ease bank reserve positions in order to permit a reduction in borrowed reserves. This policy was continued throughout the rest of the year, but after May it was more actively aimed at credit and monetary expansion and still later in the year also at helping to neutralise the impact of the gold outflow upon the credit base. In June the discount rate was lowered from 4 to  $3\frac{1}{2}$  per cent. in order to bring it more into line with market rates; it was reduced for the same reason to 3 per cent. later in the summer after short-term market rates had begun to stabilise at about  $2\frac{1}{4}$  to  $2\frac{1}{2}$  per cent.

After the heavy outflow of gold got under way in the summer of 1960, credit policy was increasingly shaped with a view to giving support to short-term rates while pushing longer-term rates downward. The four main elements of this approach were: no further reductions in the discount rate, an easing of bank reserve positions mainly through a liberalisation of reserve requirements, a broadening of open-market operations to include longer-term maturities, and a concentration by the Treasury, when raising new funds, on the short-term sector of the market. This new policy approach, the success of which must be judged more by the resultant flow



of funds than by the emerging pattern of interest rates, has so far been difficult to appraise. The rate on three-month Treasury bills, which had dropped to as low as  $\frac{3}{4}$  per cent. in the spring of 1958, did not go below about  $2\frac{1}{8}$  per cent. in the second half of 1960 and early 1961. This, together with recent discount rate and exchange parity developments in western Europe, has helped to curb the outflow of short-term capital in the last few months. Moreover, while the interest rate on long-term government securities, which fluctuated during the same period between  $3\frac{3}{4}$  and 4 per cent., remained well above the level of about  $3\frac{1}{4}$  per cent. reached in the first half of 1958, capital-issue activity quickened considerably in the spring of 1961. Thus, as the authorities intensified their policy efforts with respect to the structure of interest rates, there was some evidence that their objectives were being partially attained.

*The United Kingdom.* Monetary policy throughout the year 1960 was aimed at restraining aggregate domestic demand, but particularly that for consumer goods. Three series of specific restrictive measures, all concentrated in the first half of the year, when credit demand was advancing strongly, were progressively introduced. After an initial increase in Bank rate from 4 to 5 per cent. on 21st January, the Board of Trade on 28th April reimposed hire-purchase controls and the Bank of England made a first call for special deposits to be kept by the banks with the central bank. This was followed on 23rd June by another rise in Bank rate — to 6 per cent. — and a further call for special deposits.

As a second arm of restrictive policy, the authorities in the first half of 1960 assented to an appreciable upward movement in long-term interest rates and kept them at a high level thereafter through a vigorous policy of funding. The interest yield on  $2\frac{1}{2}$  per cent. Consols, which had stood at 4.78 per cent. at the end of October 1959, moved fairly steadily upwards to reach 5.68 per cent. at the end of June. In the first quarter, largely as the result of the January increase in Bank rate and heavy bank sales of securities, there was a considerable upward pressure on long-term interest rates. The monetary authorities, taking the view that in the circumstances a gradual increase in these rates would be desirable but being confronted with large maturing issues in February and March amounting to £648 million, found it necessary to take in a net total of £345 million of longer-term government stock. In the second quarter, as seasonal pressures on the banks eased, such security sales as they made stemmed mainly from the need to satisfy the April call for special deposits, while concurrently the non-bank demand for securities recovered under the influence of a steadier market at higher interest rates. In consequence, the authorities were able to carry out a small amount of net funding.

In the late summer and autumn of 1960 domestic output and credit expansion showed definite signs of slowing down, but the generally unsatisfactory condition of the balance of payments on current account, together with some significant impending wage negotiations, precluded any immediate relaxation

of credit restraint. Indeed, as an increased volume of both domestic and foreign funds began to flow to the security markets, the authorities resisted a decline in long-term rates by carrying out heavy sales of gilt-edged securities. Acquisitions by non-bank and overseas non-official holders amounted in the second half of the year to almost £400 million, which happened also to approximate the total net sales of the authorities during this period. The banks disposed of about £100 million, but this was offset by an increase in the holdings of the discount houses and overseas official bodies. Thus, the interest rate on 2½ per cent. Consols, after sagging somewhat in the third quarter, was by the end of the year slightly above the mid-year level.

The level and pattern of credit activity in 1960 may be illustrated with the help of the accompanying table, which shows net changes in various classes of financial claims and liabilities of the private sector (including non-bank financial institutions) vis-à-vis the public sector, the banking sector and the rest of the world. In addition, certain important flows of funds which take place largely within the private sector itself are shown in the lower part of the table as memorandum items.

The decline in the private sector's financial surplus from 1959 to 1960 was the net outcome of large changes in opposite directions in the personal and company sectors. In the personal sector the financial surplus increased; the acquisition of financial assets was approximately the same as in 1959, but there was an abrupt decline in the growth of hire-purchase debt. This was outweighed, however, by a deterioration in the financial position of the company sector, where an increase in saving was considerably exceeded by a rise in investment in fixed capital and inventories. To satisfy their additional need for funds, non-financial companies had greater recourse to bank advances and the capital market and appear also to have added less to their deposits and other liquid assets than in 1959. Moreover, in view of the large favourable swing in the external terms of payment in 1960, it is probable that companies met part of their financial requirements by means of unrecorded credits obtained from abroad.

In 1960 the acquisition of financial assets by the private sector (including acquisitions of public debt by non-official overseas holders) was comparable in scale with that in 1959, but there was a major shift from the formation of deposits with the banking system to the acquisition of government securities. Whereas in 1959 the private sector's bank deposits rose by £430 million, in 1960 they remained stationary. On the other hand, the sector's government security holdings, after a rise of only £75 million in 1959, leapt up by £685 million in 1960, partly because of large purchases by non-official overseas holders. Concurrently, the London clearing and Scottish banks, in order to continue to increase their advances and also to meet the two calls for special deposits, ran down their own direct holdings of marketable government debt by about £700 million. The total increase in their advances, although still large at £535 million in 1960, was appreciably smaller than in 1959, and by the autumn the rate of increase had been greatly reduced.

Moreover, hire-purchase restrictions, together with a stricter attitude on the part of the banks in making loans to personal and professional borrowers, helped to produce a shift in the composition of bank lending from the consumer-goods to the investment-goods industries. Finally, the general restraint on bank lending seems to have encouraged companies to seek more long-term funds in the capital market.

The central government's financial surplus, or the excess of saving over investment as measured in the national accounts, declined from £340 million in 1959 to £145 million in 1960. In the more conventional terms of the budget, which includes lending to the nationalised industries and the local authorities, the overall deficit rose from £265 to 440 million between the

United Kingdom: Financial surplus of the private sector, 1958-60.<sup>1</sup>

Items	1958	1959	1960
	in millions of £ sterling		
Financial surplus of the private sector . . . . .	770	610	355
Corresponding changes in claims on and liabilities to (increase —)			
Public sector: <sup>2</sup> Currency . . . . .	50	135	110
National savings and tax reserve certificates	200	340	325
Marketable government debt <sup>3</sup> . . . . .	340	75	685
Claims on local authorities (net) . . . . .	320	320	315
Miscellaneous <sup>4</sup> . . . . .	10	—	15
Total . . . . .	920	870	1,450
Banking sector: Deposits . . . . .	225	430	—
Advances . . . . .	— 395	— 805	— 640
Money-market assets <sup>5</sup> . . . . .	— 15	— 70	— 55
Private securities <sup>6</sup> . . . . .	— 35	55	5
Total . . . . .	— 220	— 390	— 690
Overseas: Short-term capital (net) . . . . .	— 40	30	— 305
Long-term capital (net) . . . . .	130	140	100
Total . . . . .	90	170	— 205
Other transactions (net) <sup>7</sup> . . . . .	— 20	— 40	— 200
Memorandum: Increases in			
Shares and deposits in building societies . . . . .	193	274	222
Building societies' net advances . . . . .	146	226	245
Life assurance, superannuation funds, etc. . . . .	627	705	780
Deposits with members of the Finance Houses Association . . . . .	33	73	77
Hire-purchase debt . . . . .	111	293	86
Special deposits with Trustee Savings Banks . . . . .	26	39	55
New capital issues by U.K. public companies, other than banks and investment trusts, for use in the United Kingdom . . . . .	195	349	438

<sup>1</sup> For sources and methods see Bank of England Quarterly Bulletin, December 1960, pages 21-29. For 1960 the figures are estimated by the Bank for International Settlements and in some cases the methods used may not be entirely consistent with those used for the previous years. In the estimates of changes in financial claims and liabilities the private sector is defined as comprising persons and financial and non-financial companies, excluding banks. The estimates of the financial surplus of the private sector, however, are derived from national income statistics and include the financial surplus of banks, which cannot be separately identified in the national income figures. <sup>2</sup> Central government, local authorities and public corporations. <sup>3</sup> Includes Treasury bills. <sup>4</sup> Residual. <sup>5</sup> Money at call and short notice (net) and trade bills. <sup>6</sup> Includes bank securities sold to the private sector. <sup>7</sup> Comprises the balance-of-payments balancing item and the net sum of the banking sector's claims on and liabilities to customers.

two years. The financing of "external" transactions, i.e. the increase in the Exchange Equalisation Account's holdings of gold and foreign exchange (£177 million), the accelerated repayment of debt to the International Monetary Fund (£110 million) and other net financial transactions with foreign governments and international institutions (£111 million), increased the Exchequer's cash requirement by another £398 million. After allowing for receipts of internal extra-budgetary funds, the total cash requirement came to £699 million. Of this amount, £116 million was financed through the addition to the currency circulation and another £164 million (mainly the counterpart of the banks' "special deposits") was obtained by an increase in net indebtedness to the Banking Department of the Bank of England. Increases in small savings and tax reserve certificates accounted for a further £313 million, or almost as much as in 1959. The remaining £106 million was raised through sales of marketable debt, which over the year as a whole, though with large variations within it, resulted in a net increase of £148 million in the market's holdings of gilt-edged securities, this being partly offset by a decline of £42 million in its holdings of Treasury bills.

In the last few months of 1960 and the early months of 1961 the policy of general monetary restraint was continued. Without compromising this policy, the monetary authorities, in order to bring short-term interest rates more closely into line with those ruling in New York, reduced Bank rate from 6 to 5½ per cent. on 27th October 1960 and again to 5 per cent. on 8th December. Similarly, in order to relieve the selective pressure which had been brought to bear on purchases of durable consumer goods, the maximum repayment period on hire-purchase credit was extended in January 1961 from two to three years, but the requirements as to initial down-payments were left unaltered. Significantly, no reduction was made in the requirements concerning the banks' special deposits, and the authorities' objective of keeping long-term interest rates at a high level appears to have remained unchanged.

Since the middle of 1958 the general liquidity position of the London clearing banks has undergone a substantial decline. From then until the spring of 1961, the clearing banks' advances rose from 30 to 47 per cent. of total deposits, while their investments, mainly in government securities, dropped correspondingly from 33 to 16 per cent. It seems unlikely that this shift from investments to advances will go very much further. Therefore, in the event of a renewed intensification of demand pressures, the monetary authorities may be better placed than before to exercise timely additional restraint.

*France.* A sharp rise in domestic investment, mainly in inventories, was accompanied in 1960 by a marked acceleration in the demand for credit. At the same time domestic saving rose almost commensurately, thereby contributing to the maintenance of a strong external position and a rise of NF 3.5 milliard in the banking system's holdings of gold and foreign exchange reserves. In the enterprise sector, net saving increased by NF 0.7 milliard, while net fixed capital formation rose by NF 1.3 milliard and

investment in stocks, at NF 5.1 milliard, was a full NF 3.0 milliard higher than in 1959. Thus the sector's financial deficit increased by NF 3.6 milliard to reach NF 13.2 milliard in 1960. This greater need for funds did not result, however, in any slowing-down in the sector's high rate of accumulation of liquid assets, as the expansion of its cash balances and other deposits taken together, at NF 6.1 milliard in 1960, was practically the same as in 1959. Instead, it increased its total borrowing to NF 20.5 milliard, i.e. by NF 4.3 milliard, of which NF 2.6 milliard was accounted for by greater recourse to short-term bank credit and the remainder principally by a larger flow of medium and long-term credit financed by the specialised credit institutions and the Fund for Economic and Social Development. In the household sector, on the other hand, a negligible increase in investment was accompanied by a sharp rise in saving, so that the financial surplus (excluding savings through life assurance) went up by NF 3.3 milliard to a total of

**France: Changes in financial assets and liabilities, by sectors, 1959-60.<sup>1</sup>**

Items	Years	Households	Enterprises <sup>2</sup>	Public authorities other than the state	State (Treasury)	Banking system <sup>3</sup>	Other financial institutions <sup>4</sup>	Rest of the world <sup>5</sup>
Financial surplus or deficit (-) . . . . .	1959	6.87	- 9.59	- 0.91	1.48	0.56	2.42 <sup>6</sup>	0.81 <sup>7</sup>
	1960	10.12	-13.21	- 0.80	1.43	0.56	2.60 <sup>6</sup>	0.70 <sup>7</sup>
Corresponding changes in financial assets and liabilities (increase -)								
Money . . . . .	1959	4.36	4.00	0.30	- 1.62	- 6.63	- 0.41	-
	1960	7.51	3.50	0.38	- 2.10	- 8.59	- 0.70	-
Other deposits . . . . .	1959	4.60	2.20	0.05	- 1.84	- 1.94	- 4.35	- 1.28
	1960	3.90	2.59	1.70	- 2.20	- 2.76	- 4.11	- 0.88
Short-term securities . . . . .	1959			-	- 2.68	-	- 0.39	
	1960	4.01	- 3.07	-	- 2.96	-	- 0.71	- 0.28
Bonds and shares . . . . .	1959	4.71	- 3.14	0.13	0.80	0.07	0.85	- 0.15
	1960			- 0.12	1.52	0.11	0.44	
Short-term credit . . . . .	1959	- 0.42	- 5.20	0.03	1.14	3.52	0.95	0.02
	1960	- 0.62	- 7.83	- 0.28	1.07	6.89	0.87	0.10
Medium-term credit . . . . .	1959	-	- 0.41	-	-	- 0.25	0.66	-
	1960	-	- 0.76	-	-	- 0.13	0.89	-
Long-term credit . . . . .	1959	- 2.38	- 7.51	- 1.47	7.96	-	3.92	0.82
	1960	- 2.38	- 8.76	- 2.01	7.60	-	5.97	0.42
Gold and foreign exchange . . . . .	1959	- 0.32	-	-	- 0.04	5.07	-	4.71
	1960	-	-	-	- 0.03	3.53	-	3.50
Net transactions between intermediaries . . . . .	1959				- 1.80	0.50	1.30	
	1960				- 0.35	0.11	0.24	
Statistical adjustment <sup>8</sup> . . . . .	1959	- 2.98	0.40	0.05	- 0.46	0.22	- 0.11	- 2.88
	1960	- 3.00	1.19	- 0.48	- 1.11	1.40	- 0.29	- 2.29

<sup>1</sup> Provisional estimates made by the Department of Economic and Financial Research of the Ministry of Finance for the 1960 national accounts. <sup>2</sup> Includes nationalised industries. <sup>3</sup> The Bank of France and commercial banks. <sup>4</sup> Public credit institutions and insurance companies. <sup>5</sup> French overseas territories and the rest of the world. <sup>6</sup> Includes increase in technical reserves of life assurance companies. <sup>7</sup> 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. <sup>8</sup> Including unrecorded movements of funds from North Africa to the metropolitan area.

NF 10.1 milliard in 1960. This change was almost entirely reflected in a greater increase in cash balances; acquisitions of other types of deposits and securities combined were the same in both years, and there was only a modest rise in borrowing, mainly in connection with instalment purchases.

The Treasury's financial surplus (i.e. the excess, as measured in the national accounts, of the state's saving over its own investment) was, at NF 1.4 milliard in 1960, of the same order as in 1959. In addition, the Treasury's gross borrowing in 1960, in so far as it is visible in the table, came to NF 8.8 milliard, bringing to NF 10.2 milliard the total funds available for its various lending programmes and for debt repayment. As in 1959, the funds flowing to the Treasury via its usual borrowing channels (e.g. through sales of Treasury bills to the public and through increases in postal cheque accounts, Treasury coin, etc.) were more than sufficient. Hence, for the second consecutive year, there was no need for recourse to the capital market. Of the total of NF 10.2 milliard available to it in 1960, the Treasury employed about three-quarters, i.e. NF 7.6 milliard, in long-term transactions, NF 3.3 milliard of this amount being allocated to the Fund for Economic and Social Development, NF 1.0 milliard utilised for the consolidation of special construction loans, about NF 2.0 milliard appropriated for the construction of low-rent dwellings and NF 1.0 milliard applied towards the repayment of foreign debt. Of the remaining NF 2.6 milliard, NF 1.1 milliard was used for granting short-term credits and NF 1.5 milliard for amortising domestic public debt.

Two further features of Treasury operations in 1960, which are reflected in the item "net transactions between intermediaries", were especially significant for their monetary implications. First, the banks, in order to satisfy existing minimum liquidity ratios in respect of government security holdings, purchased Treasury bills to the value of NF 1.74 milliard, the equivalent of which was sterilised by the Treasury through the partial repayment of direct advances previously received from the central bank. Secondly, owing to the ready availability to the Treasury of funds from other sources, the Caisse des Dépôts et Consignations, which had increased its deposits with the Treasury by NF 920 million in 1959, was permitted to draw them down by NF 1.15 milliard in 1960. By a swing-round of this size the Caisse was in a position not only to finance a somewhat larger volume of long-term loans but also to increase by NF 1.54 milliard its own portfolio of medium-term paper, which would otherwise for the most part have been rediscounted at the central bank.

Recent estimates show that total monetary resources (including time deposits) increased by 16.2 per cent., i.e. by NF 14.5 milliard, of which NF 6.8 milliard represented a growth in the currency circulation and postal cheque accounts (including individual accounts at the Bank of France), while NF 7.7 milliard, or NF 1.4 milliard less than in 1959, took the form of an increase in bank deposits. On the other hand, the banks' total employment of funds expanded by NF 12.3 milliard, as against only NF 6.6 milliard in 1959. The banks equilibrated their operations by increasing their recourse to

central-bank credit, which they had appreciably reduced in 1959. They rediscounted altogether NF 1.9 milliard of short-term private paper and NF 2.2 milliard of medium-term private paper with the Bank of France in 1960.

Monetary policy had essentially two facets in 1960. First, partly because a certain amount of liquidity was withdrawn from the economy through Treasury repayments of foreign and central-bank indebtedness, the authorities did not deem it necessary to restrain credit expansion. On the contrary, policy action continued to be guided by the desire to effect a general lowering of the level of interest rates. The Treasury, besides refraining from borrowing on the capital market, reduced in July 1960 the interest rate paid on Treasury bills, and on 6th October the central bank lowered its discount rate from 4 to 3½ per cent. Moreover, as from 1st January 1961, the interest rates paid on savings bank deposits were reduced. Secondly, more as a precautionary action than one aimed at immediate restraint, the authorities introduced a new system of liquidity requirements ("coefficients de trésorerie") in January 1961. Under the old arrangement French banks were obliged to invest a minimum of 25 per cent. of their deposit liabilities in Treasury bills. Under the new scheme the minimum ratio with respect to Treasury bills was reduced to 20 per cent., but simultaneously an additional 10 per cent. liquidity requirement was imposed, which can be satisfied by additional holdings of Treasury bills, cash balances, and/or holdings of rediscountable medium-term paper and paper representing cereal and export credits. As the latter three types of paper had previously been rediscountable with the central bank outside the rediscount ceilings, the new scheme should help to forestall a possible recurrence of inflationary financing via the central bank. The new ratios, moreover, are subject to change as circumstances require.

*Germany.* Owing largely to the marked increase in inventory accumulation and investment in industrial plant and equipment, and also to the continued high rate of house-building, the enterprise sector's financial deficit rose sharply, from DM 16.8 milliard in 1959 to DM 23.4 milliard in 1960. This increase was counterbalanced not so much by a rise in the surplus of the household sector — such as occurred under similar circumstances in the United Kingdom and France — as by an increase in that of the public sector, as in the United States. The household sector's financial surplus, at DM 16.7 milliard, was DM 1.5 milliard higher than in 1959. This gain was reflected in a larger acquisition of claims against non-bank financial institutions and the capital market, while deposit formation and bank borrowing continued on the same scale as in the preceding year.

The public sector's financial surplus rose by DM 4.3 milliard to reach DM 10.6 milliard in 1960. At the same time, however, lending and debt repayments to other sectors (as measured in the table by the sector's "other" financial transactions, security acquisitions and non-monetary funds placed with the banks) declined from DM 13.2 to 11.1 milliard from 1959 to 1960. This divergent movement is explained by the fact that, whereas in 1959

the sector's financial surplus was supplemented, for lending purposes, by a drawing-down of cash balances in the amount of DM 2.5 milliard and by borrowing to the extent of DM 4.3 milliard, in 1960 cash balances were

**Germany: Changes In financial assets and liabilities, by sectors, 1959-60.**

Items	Years	House-holds <sup>1</sup>	Enter-prises <sup>1</sup>	Public author-ities	Financial institutions			Rest of the world <sup>3</sup>
					Banks	Insur-ance com-panies <sup>2</sup>	Build-ing and loan associa-tions	
in milliards of Deutsche Mark								
Financial surplus or deficit (-) . . . . .	1959	15.17	-16.83	6.34	.	.	.	4.70 <sup>4</sup>
	1960	16.71	-23.42	10.64	.	.	.	3.93 <sup>4</sup>
<b>Corresponding changes in financial assets and liabilities (Increase -)</b>								
Currency and sight deposits . . . . .	1959	1.20	2.76	- 2.52	- 1.70	0.01	0.05	- 0.21
	1960	1.28	1.42	1.67	- 4.46	0.01	0.07	- 0.01
Time and savings deposits. . . . .	1959	6.93	0.93	1.30	- 9.58	0.03	0.40	-
	1960	6.80	0.31	0.90	- 8.59	0.03	0.55	-
Other funds placed with banks . . . . .	1959	0.03	2.28	1.27	- 4.26 <sup>5</sup>	0.13	-	- 0.55
	1960	0.05	3.34	2.61	- 7.68 <sup>5</sup>	0.28	-	- 1.39
Bank credits								
	Short-term . . . . .	1959	- 0.24	- 2.15	- 0.91	4.65	-	-
	1960	- 0.28	- 4.92	- 0.17	4.22	-	-	- 1.15
Medium and long-term . . . . .	1959	- 0.83	-10.47	- 2.22	14.13	-	- 0.00	0.61
	1960	- 0.51	- 9.51	- 0.95	11.57	-	- 0.08	0.52
Building and loan associations								
	Claims against . . . . .	1959	3.80	0.08	-	-	- 3.88	-
	1960	4.63	0.18	-	-	-	- 4.82	
Borrowing from . . . . .	1959	- 0.01	- 3.20	- 0.03	-	-	3.23	-
	1960	- 0.01	- 4.18	- 0.02	-	-	4.21	-
Insurance companies								
	Claims against . . . . .	1959	2.21	0.79	-	-	- 3.00	-
	1960	2.41	0.74	-	-	- 3.15	-	
Borrowing from . . . . .	1959	- 0.02	- 0.53	- 0.09	-	1.63	-	-
	1960	- 0.02	- 1.57	- 0.29	-	1.88	-	-
Security transactions								
	Acquisitions . . . . .	1959	2.28	0.92	1.27	4.82	1.23	0.21
	1960	2.54	1.58	1.62	0.40	1.00	0.07	- 2.09
Sales . . . . .	1959	-	- 2.62	- 1.09	- 5.86	- 0.02	-	1.69
	1960	-	- 3.97	- 0.71	- 3.47	- 0.04	-	1.09
Other financial transactions (net) . . . . .	1959	- 0.18	- 4.60	9.37	-	-	-	4.59
	1960	- 0.19	- 6.83	5.97	-	-	-	- 1.05
Gold and foreign exchange holdings of the Bundesbank	1959				- 2.21			- 2.21
	1960				9.01			9.01

<sup>1</sup> 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. <sup>2</sup> Includes pension funds. <sup>3</sup> 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. <sup>4</sup> Net foreign investment (i.e. balance of payments on current account minus unilateral transfers). <sup>5</sup> Includes own resources.

Source: Preliminary estimates of the Deutsche Bundesbank.



built up by DM 1.7 milliard and borrowing was reduced to DM 2.1 milliard. It is significant that the decline in the general flow of loan funds was more than accounted for by a marked fall in the flow to foreign countries and West Berlin, the outflow in 1959 having been exceptionally large as a result of advance repayments under the London Debt Agreement, special payments to international organisations and greater advance payments for armaments. The public authorities' direct loans to enterprises (mainly for housing, and shown under "Other financial transactions" in the table) were somewhat lower in 1960 than in 1959, but this decline was partly offset by an increase in indirect lending in the form of longer-term funds placed with the banking system.

As a result mainly of credit restraint and higher interest rates, the increase of DM 6.6 milliard in the net financial needs of enterprises in 1960 was met only to a moderate extent by borrowing from domestic banks. Short-term bank credit, it is true, expanded by DM 2.8 milliard more than in 1959, but the growth of medium and long-term bank credit fell back by DM 1.0 milliard. Instead of taking up bank credit, enterprises slackened the rate at which they had been adding to their sight and time deposits, had greater recourse to the capital market and borrowed considerable sums from abroad. The increase in funds shown in the table under "Other financial transactions" reflects a rise in direct short-term loans received from abroad (DM 710 million) and a favourable swing in the terms of payment (DM 1.8 milliard), partly offset by a reduction in direct loans from the public authorities. There were also substantial additional inflows of capital in the form of longer-term funds placed with the banks, a reflux of short-term bank funds from abroad and foreign acquisitions of German securities.

The restrictive measures progressively introduced until late in 1960 both contributed to, and were necessitated by, the massive influx of foreign exchange to the central bank. Taking the year as a whole, the net increase in official reserves amounted to DM 8.0 milliard, the effects of which on the credit base were offset only to a minor degree by a rise of DM 1.7 milliard in the currency circulation. An additional DM 4.0 milliard was absorbed through the growth in deposits placed to compulsory reserves, the percentage requirements with respect to sight and time deposits having been progressively raised by 1st June 1960 to 55 per cent. above their October 1959 level. Another DM 1.3 milliard reduction in bank liquidity resulted from the banks' net acquisitions of government securities, a large part of which consisted of special two-year non-negotiable paper placed with them by the authorities in the late summer and autumn of 1960. Yet another large sum, totalling about DM 2.0 milliard, was withdrawn from the economy through the growth of deposits kept by non-banks (mainly public authorities) with the central bank. Thus, in expanding their lending operations, the credit institutions were compelled to increase their recourse to central-bank credit by DM 800 million during the year.

In the first quarter of 1961 the effects upon liquidity of continued large net purchases of exchange by the Bundesbank, together with a seasonal reflux

of currency from circulation, were offset by a further substantial increase in the Federal Government's deposits with the central bank and by industry's subscriptions to the "Development Aid Loan", which were placed on a special account at the Bundesbank to the credit of the Reconstruction Loan Corporation. However, in keeping with the policy of bringing down interest rates, initiated by the discount rate reductions of November 1960 and January 1961, the authorities increased rediscount quotas once and reduced reserve requirements in three steps from 155 to 140 per cent. of the October 1959 level, thus enabling the banks to reduce their indebtedness to the Bundesbank and increase their holdings of open-market paper. Subsequently, in April, the reserve requirements against domestic deposits were further reduced by 5 per cent. and, in order to stimulate the outflow of short-term capital, modifications were made in the reserve regulations relating to the banks' foreign liabilities and assets. On 5th May the discount rate was further lowered from  $3\frac{1}{2}$  to 3 per cent. Concurrently, the authorities lowered their selling rate on two to three-month Treasury paper to  $2\frac{1}{4}$  per cent., i.e. to less than one-half of the rate in force six months earlier. Finally, with effect from the beginning of June, reserve requirements against domestic sight and time deposits were further reduced from 135 to 125 per cent. of the October 1959 level. Between July 1960 and May 1961, in no small measure owing to inflows of capital from abroad, long-term interest rates came down substantially: for instance, the effective yield on new issues of mortgage bonds declined from just below 7 per cent. to about  $5\frac{1}{2}$  per cent. during this period.

*The Netherlands.* Although short-term market rates of interest were kept at a low and declining level in 1960, the changes that occurred in other centres gave the banks less incentive than in 1959 to make additional loans and short-term investments abroad. Only Fl. 240 million of the total increase of Fl. 1,660 million in net foreign exchange assets represented a rise in commercial-bank holdings. The consequently large net purchase of foreign exchange by the central bank therefore led to the use of stronger liquidity-absorbing measures than in the preceding year. On 22nd July 1960 the banks' reserve requirements were increased from 7 to 8 per cent., but this action reduced liquidity by only Fl. 80 million. Much more important were the debt-management operations of the local authorities and the central government. With a cash-basis financial deficit of only Fl. 740 million, the local authorities, with the help of the Bank for Netherlands Municipalities, raised Fl. 1,190 million on the capital market, using the difference largely to reduce outstanding floating debt. For its part, the central government, besides realising a financial surplus of Fl. 440 million, borrowed an additional Fl. 630 million on the capital market and employed the combined total mainly to improve its balance with the central bank; the actual amount sterilised in this manner, if for this purpose the central bank's open-market sales of government securities are also included, came to Fl. 1,000 million.

As a result of these operations, the increase in the money supply and in secondary liquid assets was limited in 1960 to Fl. 1,150 million, an

amount appreciably less than the growth in foreign exchange assets. The Fl. 670 million rise in bank credit to the private sector, concentrated mainly in the second half of 1960, was not unduly large. Thus the authorities had no cause to make a call upon the banks for special deposits, a contingent action that had been mutually agreed upon in the spring of 1960 as necessary in the event of domestic credit expansion financed by the large-scale liquidation of short-term assets held abroad. In the capital market, against a background of

Netherlands: Changes in financial assets and liabilities, by sectors, 1959-60.

Items	Years	Central government	Local authorities	Institutional investors <sup>1</sup>	Private sector	Rest of the world
		in millions of florins				
<b>Financial surplus or deficit (—)</b>						
Transactions basis . . . . .	1959	1,140	—1,760	2,740	— 300	1,820
	1960	1,110	—1,730	2,760	— 930	1,210
Cash basis . . . . .	1959	310	— 900	2,780	— 610 <sup>2</sup>	1,580 <sup>3</sup>
	1960	440	— 740	2,940	—1,330 <sup>2</sup>	1,310 <sup>3</sup>
<b>Corresponding changes in financial assets and liabilities (Increase —)</b>						
Primary liquid resources . . . . .	1959	—	— 20	—	480	
	1960	—	70	30	620	
Secondary liquid resources . . . . .	1959	— 60	400	140	280	1,350 <sup>4</sup>
	1960	30	380	— 80	480	1,660 <sup>4</sup>
Bank credit . . . . .	1959	840	— 100	— 40	— 570	
	1960	790	— 10	20	— 670	
Capital market (net) . . . . .	1959	— 720	—1,180	2,680	—1,290	— 510
	1960	— 630	—1,190	2,870	—1,780	— 610
Lending or borrowing abroad <sup>5</sup> . . . . .	1959	250	—	—	490	740
	1960	250	10	—	—	260

<sup>1</sup> Includes the savings banks, life assurance companies, pension funds and social insurance funds. <sup>2</sup> Includes retained profits and net transactions in bonds and shares by the central bank and the commercial banks.  
<sup>3</sup> Net foreign investment (i.e. balance of payments on current account). <sup>4</sup> Total domestic liquidity surplus or deficit (equals increase or decrease in net foreign exchange assets). <sup>5</sup> Mainly direct investment.

fairly steady long-term interest rates, new funds raised by the private sector, both through new issues and through direct long-term private and mortgage loans, rose in 1960 to Fl. 1,910 million, compared with Fl. 1,630 million in 1959. Concurrently with a decline in the yield on three-month Treasury paper from an average of 2.57 per cent. in December 1959 to 1.54 per cent. in December 1960 the yield on irredeemable government debt receded from 4.44 to 4.34 per cent. Although the banks' reserve requirements were increased again from 8 to 9 per cent. in January 1961, these two yields declined further to reach 1.03 and 4.24 per cent. respectively by March. Following the revaluation of the florin in March, the Nederlandsche Bank announced in April that a limited amount of foreign loans would be permitted on the Dutch capital market, and subsequently a limit for the period May-July was set at Fl. 365 million. The floating of such issues could, as in Switzerland, become a factor of importance in controlling domestic liquidity and preserving equilibrium in the balance of payments.

*Italy.* In conjunction with a large balance-of-payments surplus, bank liquidity increased steadily from the beginning of 1958 until the middle of 1959, as evidenced by a decline in the loan/deposit ratio from about 75 to 65 per cent. Subsequently, the influx of exchange slowed down and certain liquidity-absorbing measures were taken, while the banks' domestic lending activity gradually accelerated. As a result, deposit formation continued at much the same rapid pace as earlier, but bank liquidity began to shrink somewhat, the loan/deposit ratio increasing again to nearly 70 per cent. by the end of 1960. The central government, owing to a considerable increase in its budget surplus on current account and to the availability of additional funds through savings channels and increments to the banks' compulsory reserves, had more than sufficient funds to cover its capital transfers and lending to other sectors. The small excess, together with the cash proceeds remaining from a conversion issue of nine-year bonds placed on the market in the spring of 1960, enabled the Treasury to reduce its indebtedness towards the central bank by more than Lit. 160 milliard. Still more important as a sterilisation measure, the Exchange Office undertook from November 1959 onwards to sell to the banks, in exchange for domestic currency, sufficient foreign exchange to permit them to bring their external positions into balance. The equivalent of well over Lit. 200 milliard was purchased by the banks in this manner in 1960. In the capital market net borrowing by the state declined from Lit. 288 milliard in 1959 to Lit. 123 milliard in 1960, while new issue activity by other sectors bounded up from Lit. 656 to 1,199 milliard. Bond issues by the special credit institutions rose notably and formed the main counterpart to the substantial increase in their lending in 1960. The biggest rise, however, was recorded by industrial bonds and shares, which advanced from Lit. 315 to 722 milliard, partly reflecting a substantial increase in foreign purchases of shares. In the spring of 1961 the yield on both government and industrial long-term bonds was just over 5 per cent., thus comparing favourably with the long-term rates prevailing in the Common Market and other industrial countries.

*Belgium.* Despite a relatively high level of economic activity in 1960, the demand for bank credit increased only moderately. This was attributable in part to the private sector's favourable liquidity position at the end of 1959, which improved further during the first half of 1960 in conjunction with a continuing inflow of foreign exchange. Financial developments took a sharp turn in the summer, when events in the Congo gave rise to a large outflow of capital and caused the National Bank to increase its discount rate from 4 to 5 per cent. But from September onwards a reversal of the speculative outflow, together with a substantial amount of Treasury short-term borrowing abroad, quickly brought official reserves above their earlier level. The government's overall budget deficit, at B.fcs. 26.5 milliard, was larger than in 1959, but in a receptive capital market the Treasury issued B.fcs. 27.1 milliard (gross) of medium and long-term securities, i.e. B.fcs. 6.8 milliard more than in 1959. There was, however, a concurrent running-off of outstanding floating debt by B.fcs. 7.2 milliard and a repayment by the Treasury of B.fcs. 2.2 milliard

of its credit margin with the National Bank. The difference was made up by larger recourse to short-term foreign borrowing, which totalled B.fcs. 10.6 milliard in 1960, compared with B.fcs. 5.2 milliard in 1959. Although total public and private net capital issues declined somewhat in 1960, the uncertainties arising out of the Congo situation and social stress at home contributed to a substantial rise in long-term interest rates. The yield on five to twenty-year government bonds went up from 5.21 per cent. at the beginning of 1960 to 6.07 per cent. at the beginning of 1961, but thereafter fell back to 5.94 per cent. by May. In view of the growing need to stimulate both exports and domestic economic progress, a reduction in the Treasury's recourse to the capital market would help, as it has done in France and Italy, to lower long-term interest rates and stimulate private investment. Up to now, however, this has been achieved primarily by means of loans granted by the semi-public credit institutions at preferential interest rates.

*Switzerland.* Because of the country's high degree of financial integration with other centres the monetary authorities were acutely aware, from the very onset of economic expansion in the spring of 1959, that a policy of liquidity control would have to be implemented by means other than higher interest rates. On the one hand, an important restrictive effect was exercised in 1960 by a central-government cash-budget surplus which was effectively sterilised, while, on the other hand, monetary policy was intentionally designed to encourage the outflow of capital, at both short and long term. The discount rate, which had been reduced from 2½ to 2 per cent. in February 1959,

Monetary survey, 1959-60.<sup>1</sup>

Countries	Years	Changes in liabilities			Changes in assets				Balance-sheet total
		Money	Quasi-money	Other	Net foreign assets <sup>2</sup>	Claims on government	Claims on private sector	Other	
in milliards of national currency units									
Italy . . . . .	1959	805	666	201	565	- 113	808	393	13,514
	1960	888	686	251	210	104	1,442	69	15,339
Belgium . . . . .	1959	6.80	5.80	0.60	—	6.80	4.20	2.20	268.10
	1960	4.70	6.10	2.00	5.30	5.40	4.70	- 2.60	280.90
Switzerland . . . . .	1959	0.80	1.70	0.12	0.06 <sup>3</sup>	0.30	2.53	- 0.26	46.10
	1960	1.80	3.20	0.90	1.10 <sup>3</sup>	0.34	4.03	0.43	52.00
Austria . . . . .	1959	2.94	6.31	0.99	1.58	3.11	5.12	0.45	86.88
	1960	1.77	5.40	1.93	- 0.85	3.37	6.31	0.28	96.00
Finland . . . . .	1959	14.70	65.20	8.90	21.30	3.30	62.00	2.30	725.10
	1960	4.70	79.70	12.80	5.00	- 11.80	97.30	6.30	822.00
Norway . . . . .	1959	0.30	0.63	0.80	0.78	0.18	0.57	0.20	22.75
	1960	0.43	0.78	0.34	0.15	0.21	1.04	0.17	24.30
Denmark . . . . .	1959	0.94	1.08	1.02	0.59	—	2.44	—	26.16
	1960	0.18	0.89	1.67	- 0.12	—	2.85	—	26.90

<sup>1</sup> From the International Monetary Fund's "International Financial Statistics". Data for each country comprise a consolidated balance sheet of the banking system, including the central bank, commercial banks, savings banks and, in some cases, certain other monetary institutions. For a precise definition of coverage see "country notes" of that publication. <sup>2</sup> Including net I.M.F. position. <sup>3</sup> Holdings of National Bank and Confederation only.

was thereafter kept unchanged, and the National Bank also successfully persuaded most of the banks to postpone an increase in the interest rates paid on savings bonds ("Kassenobligationen"). In addition, the authorities adopted a liberal attitude with respect to requests by foreigners to float new issues on the Swiss capital market. In the first half of 1960 this policy worked quite satisfactorily; concurrently with an expansion of domestic credit there was a substantial outflow of short-term capital, which was accompanied by a reduction in the banks' sight deposits with the central bank and also in the official gold and foreign exchange reserves. The increase in the money supply was thus kept to modest proportions.

In the second half of the year, however, the heavy influx of foreign exchange led the authorities to conclude a gentleman's agreement with the banks, under which the latter undertook to accept new foreign funds only at time, and no longer at sight, without interest and subject to a 1 per cent. commission per annum. Despite this measure, the October gold scare and the attendant uncertainties about the dollar contributed to a further large inflow of exchange. While making no fundamental change in interest rate policy, the National Bank in October placed with the banks Federal short-term securities amounting to Sw.fcs. 400 million, which was credited to the government on a blocked account. Taking the year as a whole, a further acceleration in the domestic demand for credit, mainly for building and the financing of imports and exports, may be seen in the table to have combined with the influx of foreign exchange to form the counterpart of an exceptionally large increase in monetary and quasi-monetary assets. New funds raised on the capital market, both through new issues and through privately-placed shares and loans, were only slightly below the high 1959 level, net foreign issues having risen from Sw.fcs. 479 to 558 million, while net domestic borrowing dropped off from Sw.fcs. 1,884 to 1,701 million.

Following the March 1961 revaluations of the Deutsche Mark and the Dutch florin, a further heavy inflow of foreign exchange resulted in a sharp increase in the banks' sight deposits with the central bank. In consequence, the National Bank, in co-operation with the banking institutions, temporarily sterilised over Sw.fcs. 1 milliard of these deposits by placing them on a special blocked account.

*Austria.* In conjunction with a rapid rise in economic activity, there was a record increase in 1960 in credit to the private sector. Although monetary restraint measures were introduced in the spring, the credit institutions, which at the end of January held liquid assets of Sch. 2.6 milliard in excess of minimum requirements, did not begin to feel a liquidity pinch until the autumn. On 17th March the discount rate was raised from 4½ to 5 per cent. At the same time, the National Bank announced that, with effect from 1st April, the larger banks' reserve requirements against sight and savings deposits would be raised from the uniform rate of 5 per cent. to 9 and 7 per cent. respectively; Sch. 1.3 milliard was sterilised by this action. Owing to rising expenditure, the Federal Government's overall budget deficit was not

reduced as much during 1960 as would have been called for by anti-cyclical budgeting. In September a Federal loan of Sch. 1.5 milliard, carrying an effective interest yield of over 7 per cent., met with limited public response, and the credit institutions had to take up a large proportion of the issue. Moreover, the government's additional cash requirements were satisfied principally through the sale of Treasury bills to the banks. The increase in the credit institutions' holdings of government securities, combined with the sharp advance in their claims on the private sector, was not accompanied by a proportionate growth in deposit liabilities. Savings deposits rose by almost as much as in 1959, but the growth of the money supply slackened noticeably. By the end of the year the credit institutions' liquid assets in excess of minimum requirements had been reduced to Sch. 570 million.

*Finland.* An increase of 8 per cent. in the real gross national product was associated with an accelerated growth of domestic credit in 1960, particularly in connection with a sharp rise in imports and exports. Two important sources of pressure on bank liquidity emerged. First, as domestic incomes rose the central government's budget automatically benefited, and a resulting cash surplus was used primarily to reduce the Treasury's net indebtedness to the central bank by FM 9.6 milliard. Secondly, although the country's overall exchange position improved slightly in 1960, the liquidity of financial institutions was reduced by a net decline of FM 6.4 milliard in the central bank's gold and foreign exchange holdings, this amount being transferred to the commercial banks and the Treasury in exchange for domestic currency. Thus, with the formation of deposits increasing less rapidly than the expansion of their claims on the domestic economy, the banks were compelled to borrow FM 19.7 milliard from the central bank, mainly through the rediscounting of bills. In order to put a brake on rediscounting, the Bank of Finland by degrees tightened the terms applying to these transactions. From the beginning of 1960 the limit for rediscounting free of the penalty rate was lowered from 60 to 30 per cent. of the rediscounting bank's own funds. Subsequently, in July, the scale of penalty rates was made steeper, and in October the maximum penalty rate was raised from 3 to 4 per cent. However, partly for institutional reasons tending in Finland to weaken the restrictive effect of changes in interest rates, no measures were taken to raise the general level of rates during the year. In May 1961, for a period of one year only, a special reserve requirement was introduced, under which the credit institutions are obliged to deposit with the central bank that part of the rise in their deposits in excess of 80 per cent. of the rise in the corresponding period of the preceding year.

*Norway.* Economic expansion accelerated in 1960 and was accompanied by a pronounced increase in the demand for credit. The lending of the commercial and savings banks rose by N.Kr. 988 million, as against N.Kr. 595 million in 1959, while that of other credit institutions (i.e. life assurance companies, credit associations and the state banks) increased from N.Kr. 769 to 960 million between the two years. Concurrently, the liquidity supplied through

Norges Bank's net purchases of foreign exchange declined to N.Kr. 144 from 505 million in the preceding year, but this effect was partly compensated by the government's financial operations, which resulted in a net absorption of only N.Kr. 15 million in 1960, compared with one of N.Kr. 285 million in 1959. The net withdrawal of funds by the budget, excluding loan transactions, at N.Kr. 452 million, was higher than the year before, but the government's net borrowing declined from N.Kr. 467 to 149 million, while loans to the state banks rose moderately to a total of N.Kr. 586 million. Taken together, the government's net financial transactions and Norges Bank's foreign exchange purchases supplied the banks with N.Kr. 145 million's worth of liquidity, which in turn was just offset by a rise in the currency circulation. Hence, although monetary and quasi-monetary assets placed with the banks rose more than in 1959, the still greater increase in lending compelled these institutions to draw upon their Treasury bill holdings and their deposits with the central bank. Against the background of a relatively unchanged structure of interest rates in 1960, the total volume of capital issues was lower than in 1959, but this reflected mainly the decline in issues by the central government.

*Denmark.* Domestic bank-credit expansion in 1960 exceeded the already high rate attained in 1959, despite a similar growth in the national product in the two years. In combination with a deterioration in the foreign exchange position, a large cash budget surplus and a rise in long-term interest rates, this development brought the banks under a considerable degree of liquidity strain by the end of the year. As in 1959, the central government's cash surplus was used mainly to improve the Treasury's account with the central bank, thereby withdrawing funds in excess of D.Kr. 400 million from the economy. Thus the banks, in order to satisfy the strong private demand for credit, had to reduce their holdings of deposit certificates and government securities and also to increase their indebtedness to the central bank. Under the influence of the banks' security sales, together with an increase in private recourse to the capital market, the yield on long-term government bonds rose from just over 5½ per cent. at the end of 1959 to about 5.8 per cent. in the middle of 1960 and thereafter remained at this level. The total value of outstanding bonds quoted on the stock exchange increased in 1960 by D.Kr. 1.8 milliard, compared with D.Kr. 1.4 milliard in the preceding year. Danmarks Nationalbank, after increasing the discount rate from 5 to 5½ per cent. in January 1960, undertook no further measure of credit restraint in that year. Indeed, in order to relieve the degree of tightness emanating from other sources, the authorities considered it timely in May to renew the facility, withdrawn in 1948, permitting the banks to borrow from the central bank against the deposit of securities. In the spring of 1961, however, the outbreak of widespread strikes, the settlement of which brought substantial increases in income for large sections of the population, was accompanied by a resurgence of inflationary expectations. On 23rd May the central bank raised its discount rate by a full point to 6½ per cent., the highest level in thirty-seven years, and warned the banks to limit their lending, except for exports.



*Sweden.* Notable progress was made in 1960 towards the solution of a dual, primarily internal, financial problem. On the one hand, the central government's large budget deficit was substantially reduced, so that its net borrowing requirement dropped from S.Kr. 1,925 million in 1959 to S.Kr. 1,100 million in 1960, a decline which was also reflected in a reduction of about the same size in the total net demand for credit in Sweden. On the other hand, through a policy of higher interest rates and a broadening of the non-bank market for government securities, the authorities successfully shifted the financing of the government's deficit away from the banking system. In March an attractive long-term public loan, yielding 5½ per cent., brought a record response of over S.Kr. 1,000 million in subscriptions. In June the authorities began for the first time to sell Treasury bills, at favourable yields, outside the banking sector. In October a new type of non-negotiable medium-term savings bond was issued to private persons only, the yield on which, if kept until maturity at 7½ years, will amount to 5.55 per cent. Sweden's "investment reserve" scheme, although exercising its effect through tax concessions rather than interest rates, may also be classified in this group of policy measures; in 1960 business firms deposited with the central bank a total of S.Kr. 770 million, some of which was due to the granting, during certain months of 1960, of more liberal tax allowances on investment reserve funds placed entirely, instead of in part, with the Riksbank.

These measures were responsible for an actual net loss of deposits in 1960 by the commercial banks, whose total lending declined by S.Kr. 150 million, compared with a rise of S.Kr. 3,050 million in 1959. The banks continued to lend to the private sector on a large, though reduced, scale, but to do this they had not only to run down their holdings of Treasury

Sweden: The credit market, 1959-60.

Lenders \ Borrowers	Years	Public sector		Private sector		Total
		Central government	Local authorities	Housing	Rest of the economy	
net amounts, in millions of kronor						
Riksbank . . . . .	1959	400	—	—	—	400
	1960	1,200	—	—	—	1,200
Commercial banks . . . . .	1959	1,275 <sup>1</sup>	75	500	1,200	3,050 <sup>1</sup>
	1960	-1,250 <sup>1</sup>	50	300	850	-150 <sup>1</sup>
Other credit institutions <sup>2</sup> . . . . .	1959	325 <sup>1</sup>	200	1,500	575	2,600 <sup>1</sup>
	1960	400 <sup>1</sup>	100	1,500	450	2,450 <sup>1</sup>
National Pension Insurance Fund . .	1959	—	—	—	—	—
	1960	140	60	160	100	460
Capital market <sup>3</sup> . . . . .	1959	—	75	75	125	200
	1960	610	190	170	350	1,320
<b>Total . . . . .</b>	<b>1959</b>	<b>1,925</b>	<b>350</b>	<b>2,075</b>	<b>1,900</b>	<b>6,250</b>
	<b>1960</b>	<b>1,100</b>	<b>300</b>	<b>2,150</b>	<b>1,750</b>	<b>5,300</b>

<sup>1</sup> Adjusted for temporary switches of deposits between commercial-bank accounts and postal giro accounts in late 1959 and early 1960. These shifts were the result of accelerated expenditure in anticipation of the introduction of the turnover tax. <sup>2</sup> Includes savings banks, the Postal Savings Bank, the Postal Cheque Service, the provincial agricultural credit associations and the insurance companies. <sup>3</sup> Excludes placement of funds by financial institutions.

bills and short bonds by S.Kr. 1,250 million but also to increase their borrowing at the Riksbank and to reduce their foreign exchange holdings. For its part, the Riksbank, in taking up an additional S.Kr. 1,200 million's worth of government securities, was motivated by the desire to moderate the degree of pressure being brought to bear upon the banks and the economy. The counterpart of the reduced rate of lending by the commercial banks was a sharp increase in total net lending through other channels, i.e. through other financial institutions, the new National Pension Insurance Fund and directly through the capital market. The flow of funds emanating from these sources rose from S.Kr. 2,800 million in 1959 to S.Kr. 4,250 million in 1960.

*Yugoslavia.* The emergence of excessive demand pressures in the spring of 1960, particularly in the capital-goods sector, led the government to introduce a restrictive credit policy in May. The basic step was to forbid all banks to increase credits outstanding beyond their level on 30th April 1960. In addition, the banks were obliged to set aside out of the reflux of funds resulting from debt repayments a reserve of 1 per cent., which could be used for meeting seasonal credit needs in the autumn. The intention underlying these measures was to cause enterprises and the social investment funds to employ more of their own resources for financing working capital requirements and less than before for investment in fixed assets. This credit policy, together with certain measures of fiscal restraint and a tightening of consumer credit terms, should help, by easing the overall pressure of demand, to bring about an improvement in the balance of payments.

**Yugoslavia:**  
Saving, Investment and changes in financial assets, by sectors, 1959-60.

Items	Years	House-	Socialist	Invest-	Government	Others	Rest of
		holds <sup>1</sup>	enter-	ment			the
in milliards of dinars							
Saving . . . . .	1959	155	305	356	111	23	
	1960	113	383	380	125	98	
Investment (—) . . . . .	1959	— 123	— 736	—	— 70	— 70	
	1960	— 74	— 896	—	— 80	— 103	
Financial surplus or deficit (—) .	1959	32	— 431	356	41	— 47	— 49 <sup>2</sup>
	1960	39	— 513	380	45	— 5	— 54 <sup>2</sup>
Corresponding changes in financial assets and liabilities (increase —)							
Currency and sight deposits . . . . .	1959	54	52	9	17	20	
	1960	40	— 5	4	71	122	
Non-liquid deposits . . . . .	1959	—	50	16	— 30	25	
	1960	14	34	— 9	— 7	8	
Bank credit . . . . .	1959	— 22	— 191	— 49	54	— 17	
	1960	— 16	— 158	— 56	— 19	— 21	
Investment loan funds . . . . .	1959	—	— 336	380	—	— 44	
	1960	—	— 326	387	—	— 61	
Other sources of funds . . . . .	1959	—	— 6	—	—	— 31	
	1960	1	— 58	54	—	— 53	

<sup>1</sup> Includes individual enterprises.

<sup>2</sup> Balance of payments on current account (cash basis).

Japan. The swift pace of economic expansion in recent years has been the result of an especially favourable combination of growth factors: large labour reserves, stable prices and booming exports, and a high rate of saving and investment. This advance continued in 1960 and gave rise to a further expansion of credit activity. Higher investment expenditure contributed to a substantial increase in the corporate sector's financial deficit and to a smaller one in that of government enterprises and local authorities. As these increases were not altogether compensated by the rises, of approximately equal size, in the financial surpluses of the personal and central-government sectors, there was a deterioration in the balance-of-payments surplus on current account. Nevertheless, as a result of heavy inflows of short-term capital, partly in the form of Euro-dollars, the official reserves increased more than in 1959.

Although Japanese industry has continued to rely heavily upon loans received from the banks and other financial institutions, a larger proportion of funds was raised on the capital market in 1960. In the past two years, moreover, personal saving has risen remarkably and individuals have demonstrated a growing tendency to pay attention to the relative yields of different financial assets. Interest rates continue to be high by western standards, but this is largely a reflection of the strength of investment demand. In

Japan: Changes in financial assets and liabilities, by sectors, 1959-60.<sup>1</sup>

Items	Years	Personal	Corporations	Central government	Government enterprises and local authorities	Banking	Other financial institutions	Rest of the world
Financial surplus or deficit (—)	1959	1,179	—1,032	34	—132	85		134
	1960	1,372	—1,496	249	—157	94		63
Corresponding changes in financial assets and liabilities (increase—)								
Money	1959	310	209	— 9	20	—444	— 96	
	1960	436	316	— 9	44	—632	—154	
Time and savings deposits	1959	925	348	—144	7	—704	—332	
	1960	905	377	—151	39	—753	—417	
Insurance and trust claims	1959	272	61	—102	2	—	—233	
	1960	339	51	—116	2	—	—276	
Securities (net)	1959	295	—288	— 87	— 62	141	38	
	1960	504	—472	86	—122	2	86	
Loans	1959	—374	—1,434	317	—101	903	689	
	1960	—522	—1,931	341	—103	1,376	839	
Official gold and foreign exchange reserves	1959			52		79		141
	1960			71		110		181
Other foreign claims (net)	1959	—	72	22	1	43	—	6
	1960	—	93	19	6	37	—	116
Miscellaneous transactions <sup>2</sup>	1959	—149	144	—25	1	— 9		
	1960	—290	256	8	—11	—50		

<sup>1</sup> Provisional estimates of the Bank of Japan. <sup>2</sup> Mainly trade credit; includes also statistical discrepancies.

April 1961 the yield on industrial debentures and public-corporation debentures guaranteed by the government, both with a life of seven years, stood at 7.4 and 7.1 per cent. respectively, while in March the average of interest rates on all bank loans and discounts was 7.9 per cent. Monetary policy has been exercised in a flexible manner, but the banks' disproportionately large loan portfolios and their heavy borrowings from the central bank have inhibited the development of open-market operations and variable reserve requirements as techniques of control. Hence reliance has had to be placed primarily upon discount policy. Towards the end of 1959, when signs of inflationary pressures were spreading, the Bank of Japan raised the discount rate from 6.94 to 7.30 per cent. Subsequently, as these pressures moderated, the discount rate was brought down again to 6.94 per cent. in August 1960 and then, in January 1961, to 6.57 per cent.

\* \* \*

Credit expansion in most western European countries was considerably greater in 1960 and early 1961 than in 1959 and helped to finance the large increases in aggregate demand. The growth of bank credit was particularly marked and, with few exceptions, was accompanied by a slower rate of increase in deposit formation and hence a decline in the liquidity of banking institutions. This was partly a natural consequence of economic expansion, owing to the tendency of investors to diversify their financial assets by placing a proportion of their funds with non-bank financial institutions and in the capital market and also, in some cases, to reduced foreign exchange inflows. But it was also partly the result of the conscious efforts of the authorities to bring market liquidity under better control, either by the application of existing techniques or the introduction of new ones. Thus in most countries in the spring of 1961 the monetary authorities were better placed than in the recent past to exercise effective restraint as and when needed. And the need might well arise or become intensified, in view of the prospect of a continued growth in aggregate demand, which is already uncomfortably high at a time when expansion in the United States is beginning to make itself felt in world commodity markets.

### III. DOMESTIC AND WORLD-MARKET PRICES.

Despite the boom conditions which prevailed in most of western Europe last year, there was only a moderate increase in overall price levels. This was partly due to the fact that harvests were good in 1960, so that there was a tendency for agricultural prices to decline. On world markets, too, prices of industrial raw materials and, even more so, those of agricultural products tended to weaken in 1960, although they became somewhat firmer in the early months of 1961. There was a general and very marked increase in industrial wages during the year but the pressure that this exerted on costs was limited by the exceptional rise in productivity. A further factor which undoubtedly helped to reduce the pressure on prices was the very high degree of import liberalisation attained, which made it possible to satisfy domestic demand by increasing purchases abroad. Most industrial prices did, however, move slightly upwards.

The restrained behaviour of prices during this period of high economic activity and expansion thus presented a rather significant contrast to price behaviour during the 1955-57 boom. At that time wage increases more often outstripped productivity gains, and mounting prices were consequently a much greater problem.

In North America, where demand was slack, prices were not under pressure last year. In the United States there was a tendency for the cost-of-living index to go up, mainly owing to rising food prices; wholesale prices, however, were stable and it seems that competitive forces caused a certain reduction in the prices of some industrial goods.

#### **Domestic prices and wages.**

*Consumer prices.* In most European countries cost-of-living indexes showed an upward tendency last year, though generally the rise was at a slower rate than in 1959. In countries where the increase was appreciable special factors were at work. Belgium was an exception in that consumer prices there declined slightly, and in Germany and the Netherlands the cost-of-living index remained stable.

The movements of most of these indexes reflected lower prices for food and higher costs for services and rents. Largely because of the good harvests in 1960, following the rather poor results in 1959, the food component in cost-of-living indexes fell in the majority of western European countries, the decline in Germany and the Netherlands having been quite considerable. The significant exception was Sweden, where prices have risen since the beginning of 1960 owing to the introduction of a 4 per cent. general turnover tax. In both the United States and Canada prices of foodstuffs increased — by 3.1 and 2.3 per cent. respectively.

Rents tended to rise everywhere, and in some countries quite sharply. This was mainly due to the general policy of relaxing rent control, as further steps were taken in 1960 towards liberalising the housing market. The most substantial increases were in France, Germany, Italy and the Netherlands.

The services component of cost-of-living indexes also continued to move upwards in 1960. This trend has been in evidence for some time, and the

Rises in prices of services, 1956-60.

Countries	Services, excluding rent	Rent	Total consumer prices
	In percentages		
France . . . . .	53	84	33
Italy . . . . .	22	71	9
United Kingdom .	25	35	12
United States . .	17	9	11

rise in the prices of services has been greater than that in average consumer prices over the past five years. Owing to the partial removal of rent restrictions, the increase in rents in western European countries exceeded that in other services during this period. In the United States, however, where rents were decontrolled some time ago, the recent rise in this item has been

more moderate and has been smaller than that in the prices of other services.

Consumer prices in France rose appreciably in 1960, but the rate of increase was much slower than in the preceding years. There was an increase in the price of bread, owing to the rise in the officially fixed price of wheat, and also in fares on the Paris transport system. More significant, however, is the fact that prices of manufactured goods have been tending to go up. This movement seems to have been partly due to a certain time-lag in adjustments to the currency devaluation of 1958.

The rise in consumer prices continued to slow down in most countries in the first three or four months of 1961. In France, the Netherlands, Finland and the United States the cost of living remained unchanged; in certain other countries, such as Switzerland and Canada, the rise was insignificant or there was even a small decline. In Italy and the United Kingdom, however, prices increased up to April 1961 relatively faster than in 1960, and in Austria they rose more than in the whole of 1960. In Germany, after having been stable in 1960, consumer prices rose by 1 per cent. in the first four months of 1961.

*Wholesale prices.* Wholesale-price indexes are generally more volatile than consumer-price indexes, as their typical components are raw materials and semi-finished goods, the prices of which are particularly subject to fluctuations. Two of the national wholesale-price indexes included in the table on the next page (those for Austria and Switzerland) contain only agricultural products and raw materials and no manufactured goods, while those for Germany and the United Kingdom cover only manufactured goods (there are separate indexes for agricultural and industrial raw materials, but no combined figures are calculated).

In seven out of the fifteen countries included in the table wholesale prices for agricultural products fell in 1960 — in most cases quite steeply — owing to the improved harvests. Those of raw materials dropped in nine

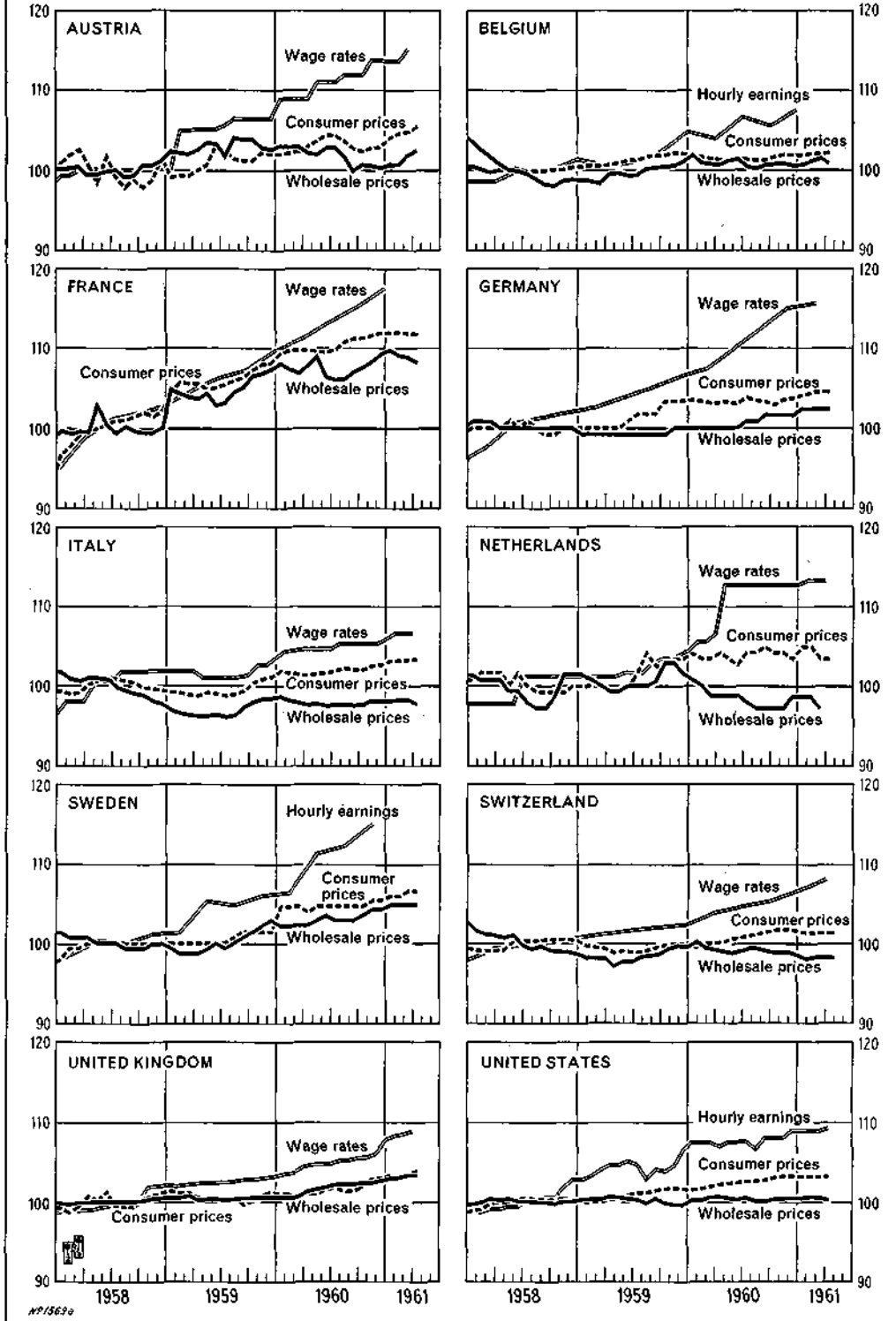
Changes in the main components of price indexes during 1960.

Countries	Consumer prices				Wholesale prices		
	Food	Rent	Light and fuel	Clothing	Agricultural products	Raw materials	Manufactured goods
In percentages							
Austria . . . . .	- 1.7	6.3	0.2	2.2	- 3.7	- 0.1	.
Belgium . . . . .	- 0.9	.	.	.	- 5.2	- 4.7	- 1.7
Denmark . . . . .	- 0.3	5.5	- 0.8	1.1	- 4.0	- 5.1	1.0
Finland . . . . .	4.2	4.8	3.1	2.4	2.1	3.2	1.8
France . . . . .	1.7	17.5	- 0.1	3.1	0.7	1.5	4.3
Germany . . . . .	- 4.6	13.8	2.7	1.9	-10.1	- 2.2	5.0
Italy . . . . .	- 0.2	14.5	0.0	1.4	0.5	0.5	- 0.4
Netherlands . . . . .	- 4.0	13.5	0.0	0.0	- 9.2	- 1.2	- 0.7
Norway . . . . .	- 2.2	2.1	0.6	1.4	- 2.4	3.5	0.0
Spain . . . . .	0.6	0.0	.	0.3	5.6	2.3	1.1
Sweden . . . . .	4.7	3.2	- 1.9	4.0	1.9	1.3	2.8
Switzerland . . . . .	1.6	2.3	0.1	2.0	- 1.0	- 0.9	.
United Kingdom . . . . .	- 0.6	3.4	5.4	1.5	.	- 2.1	2.1
Canada . . . . .	2.3	0.5	- 1.1	1.3	0.3	- 0.5	0.5
United States . . . . .	3.1	1.4	1.3	1.3	3.3	- 0.1	1.7

countries, reflecting the general decline in commodity prices on world markets. Prices of finished goods moved upwards, except in Belgium, Italy and the Netherlands. In Sweden there were price increases for agricultural and forestry products, manufactured goods and building materials.

In the United States the slight decline registered by the index total in the previous year was offset by a small rise in 1960, agricultural products and finished goods having been responsible for the increase. In western Europe, where different economic conditions obtained, wholesale prices also developed differently: it is estimated that, after falling slightly in 1958, they increased by about 2 per cent. in 1959 and went up further — by rather more than 1 per cent. — in 1960. Among the major countries, increases were recorded in 1960 in France, Germany and the United Kingdom, while Italy witnessed a small downturn. In France, and even more so in Germany, the upward movement reflected above all the higher cost of finished products. French agricultural prices were kept up by the official support policy but rose less than wholesale prices in general; electric-power prices were increased in October 1960. German agricultural prices in 1959 had been influenced by the poor harvest; in 1960, as agricultural output expanded by 10 per cent. and cheap imports were officially encouraged, these prices fell by 10 per cent. — about the same as in the Netherlands. In the United Kingdom there was an upward movement in the prices of manufactured goods but the prices of basic materials and fuels used by manufacturing industries showed a proportionate decrease. The decline in their import prices was even greater. In many of the smaller countries wholesale prices fell in 1960. The cause, in almost every case, was the downward drift in prices of agricultural products and of raw materials in general. The pressure on prices

Wholesale and consumer prices and industrial wages.  
Indexes: 1958 = 100.





has been most pronounced in the building sector. German building costs rose by over 7 per cent. in 1960, following a similar increase in 1959. In Austria, Italy, Sweden and Switzerland the increase was of the order of 5 to 6 per cent. In general, the rise in the wage component of these costs was greater than that in the materials component. In other countries building costs did not increase significantly.

During the first three or four months of this year wholesale prices became somewhat firmer, in line with the upward course of raw-material prices.

*Wages.* The persistent upward movement of wages in most countries accelerated in 1960, gaining stronger momentum in the second half of the year and in the first few months of 1961. Earnings generally rose more than rates, as shortages on the labour market led to more overtime and more individual wage increases and upgrading. Nevertheless, wage rates rose much more in 1960 than in 1959, the higher rates including, in some instances, compensation for a shorter working week. The rate of increase of earnings was slower than in 1959 in the United States and Canada, and in Austria, Belgium, Denmark and Norway, but faster in Germany and Sweden, and in Finland, Italy and Switzerland (in the last three of which countries it had slowed down in 1959 compared with 1958). In the Netherlands and the United Kingdom the tempo of increases in wage rates quickened appreciably by comparison with the preceding year. Since the increase in consumer prices was fairly moderate, wages also went up in real terms.

In Germany the percentage rise in wages and salaries in 1960 was particularly large, with the rate of increase accelerating in the first three quarters of the year. The acceleration was especially marked in the third quarter owing to the incidence of a large number of renewals of labour contracts in important branches of the economy. In the fourth quarter, however, fewer such renewals became due and the overall rate of increase consequently slowed down. Even so, in this period the wages of about one-third of all male workers were raised by 7 per cent. and those of one-half of all female workers by 11 per cent. Subsequently, employees and workers in the public services also received increases: as from 1st April 1961 the salaries of Federal, state and local government employees were raised by 9 per cent. and the corresponding workers' wages by 12-13 per cent.; a similar settlement was made for railway personnel. These developments have meant that wage increments outstripped productivity gains in 1960 and early 1961, whereas at the beginning of last year output per man-hour was still increasing at the faster rate.

In Austria wages rose in 1960 by some 7 or 8 per cent., about the same amount as in the previous year. Many collective agreements included, in addition to wage rises, improved social benefits. In most cases negotiated wage increases require the approval of the Joint Committee on Wages and Prices, whose attempts to permit only such increases as do not lead to a rise in prices have not always been successful. Since the beginning of 1961 the prices of several important kinds of goods and services have risen and, in addition, minimum wages in the metal, mining and oil industries and the

Increases in nominal and real wage rates and earnings in industry.

Countries	Wages	Nominal			Real	
		1958	1959	1960	1960	1958-60
in percentages						
Austria . . . . .	Rates	2.2	6.4	6.8	6.0	12.6
	Earnings	2.3	6.1	8.0	7.1	15.7
Belgium . . . . .	Rates	3.9	3.4	2.9	3.1	8.1
	Earnings	2.6	3.5	2.8	3.0	7.5
Denmark . . . . .	Earnings	3.6	9.2	7.1	6.4	15.9
Finland . . . . .	Earnings	5.9	4.7	5.4	2.4	6.8
France . . . . .	Rates	8.2	6.7	7.1	3.4	3.3
Germany . . . . .	Rates	6.5	4.3	8.2	8.2	14.5
	Earnings	4.7	7.2	11.2	11.2	18.7
Italy . . . . .	Rates	5.5	1.8	2.2	0.4	4.1
	Earnings	5.4	1.7	6.4	4.5	8.2
Netherlands . . . . .	Rates	3.4	3.3	7.9	7.9	11.5
Norway . . . . .	Earnings	6.4	7.9	3.0	2.4	9.6
Sweden . . . . .	Earnings	4.8	4.8	8.5	4.4	9.8
Switzerland . . . . .	Rates	2.8	1.7	4.1	2.3	6.7
	Earnings	4.4	1.2	4.9	2.9	8.2
United Kingdom . . . . .	Rates	3.6	1.1	4.0	2.2	5.0
	Earnings	3.2	3.9	8.3	6.2	11.6
Canada . . . . .	Earnings	3.0	4.1	2.2	0.8	4.7
United States . . . . .	Earnings	4.3	3.7	2.2	0.6	5.3

Note: The 1960 figures for Denmark are for the third quarter.

salaries of certain categories of public employees in Vienna have been raised by between 6 and 10 per cent.

In the United Kingdom the average wage increase of 8.3 per cent. in 1960 was twice that of 1959. Part of the difference was due to the greater amount of overtime worked following the reduction in standard working hours in 1960. In general, earnings increased more or less uniformly in all industries and where rises in wage rates were relatively small this was, in effect, compensated by pay above the agreed scales. In contrast to 1959, output per man-hour improved less than wages; thus, there was an upward pressure on costs and prices during the year. These conditions continued during the first few months of 1961.

In the Netherlands the wage policy in force since the summer of 1959 links wage increases to the growth in productivity in individual industries. This new policy led to large wage increases in 1960, which were augmented by the general rise of 2½ per cent. granted on 1st April 1960 to compensate for the increase in rents. For the whole of 1960 wage rates rose by nearly 8 per cent., much more than in either of the two preceding years under the former wage system. Attempts in September 1960 to secure wage increases above the contractual level were opposed by the Dutch authorities.

In Sweden money wages went up by 8½ per cent. in 1960 — nearly twice as much as in the two previous years. The wage agreements concluded during the year involved substantial contractual increases, and "take-home pay" was further augmented by adjustments beyond the contractual scale. As the

pressure on the labour market grew more intense in 1960, this type of increase became an important feature of the upward movement of earnings during this period, when about half the total rise in hourly earnings was over and above the contractual limit. Since the 1960 wage agreements are also valid for 1961, this movement may be expected to continue.

In Denmark the trend of wages was, as in 1959, sharply upwards in 1960, the rises in the two years being some 9 and 7 per cent. respectively. Nevertheless, severe strikes occurred in the spring of 1961, which were among the most extensive that the country has ever experienced. In the settlement of these disputes, new labour contracts (valid for two years, compared with the former three years) were concluded, involving an average wage increase of about 6 per cent. — more to the lower and less to the higher wage categories. Similar adjustments are expected for other industrial groups, for employees of the public authorities and for pensioners.

As the Belgian economy was in process of readjustment in 1960, the increase in wages was smaller than in the preceding year, since the sliding-scale mechanism caused no general upward movement. Only in the metal-working and textile industries did some rises in pay occur. In May 1960 employers and workers concluded an agreement on "social programming" which made provision for a number of social benefits and is expected to secure wage peace until the end of 1962. Although a severe strike occurred in late 1960, this was a move directed against the government's austerity programme rather than an industrial dispute.

In Italy (where unemployment is still heavy in some areas) and Switzerland (where the shortage of manpower has been relieved by a very considerable influx of foreign labour) wages increased much more in 1960 than in 1959. This, however, had no general effect on prices because of offsetting productivity gains.

Average wage rates in France rose substantially in 1960, with an increase of 7.1 per cent., about the same as in 1958 and 1959. But, as the rise in consumer prices slowed down last year, wages in real terms — which had remained stationary in 1958 and 1959 — went up. In July family allowances, which are a very important component of the French wage system, were raised by 5 per cent. and in January 1961 a further increase of 6 per cent. was granted, half with effect from 1st January and the other half as from 1st August.

In the United States and Canada the increment in earnings in 1960 — in each case 2.2 per cent. — was the smallest for several years. This was a reflection of the recession in economic activity which occurred in both countries.

### **Raw-material prices.**

Industrial production in the world as a whole increased by about 6 per cent. and reached a new record level in 1960. This peak was attained despite the fact that output in the United States, which is the largest industrial producer, was only a little above 1959. As a consequence, demand for basic

commodities increased. With a few exceptions, consumption of raw materials touched new heights and — apart from a few cases where crop yields fell severely — production experienced a further rise. Prices of raw materials did not benefit, however, from the industrial boom. Markets were again characterised by over-supply, which kept prices under pressure.

In fact, the erosion of raw-material prices, which have been moving downwards since about 1951, became more accentuated in 1960, and these prices now stand below their pre-Korea level. Moody's Index, for example, which reflects U.S. markets, reached its lowest level since 1950 in November 1960 and Reuter's Index, which reflects sterling markets, in December. Schulze's Index — more stable than the other indexes because it is more comprehensive — fell for the second time below its mid-1950 level at the end of September 1960.

The readier availability of basic commodities has for some considerable time allowed raw-material users to hold smaller stocks relative to their consumption. In addition, technical developments have been leading to a reduction in the amount of raw materials and energy required per unit of finished product, while an increasing range of high-quality synthetic materials, which compete directly with the natural products, have been displacing them for many industrial purposes. Similar changes are taking place in the production of a number of agricultural products. Harvest yields have risen steadily as a result of increasing mechanisation, better utilisation of land and more efficient elimination of plant diseases. A substantial increase in metal production has been made possible by the expansion of existing plant and the working of new mines.

This combination of factors has led to weakness on the basic commodity markets — a condition that is further evidenced by the markets' lack of response to events and disruptions that only a few years ago would have been sufficient to cause sharp rises in prices. The unsettled state of the gold market in the last quarter of the year, crises such as those in the Congo (an important primary-producing country) and Laos, strikes in Bolivia, Chile and elsewhere — all had little impact on the raw-material markets. Not even the U.S. embargo on imports of Cuban sugar had any appreciable effect on the price of that commodity.

However, the poor harvest in China and the consequent large-scale purchases of foodstuffs in Australia and Canada, as well as larger purchases by the U.S.S.R. and Czechoslovakia, served to strengthen the prices of cereals, fats and oils and freight rates in 1960. In the first four months of 1961 raw-material prices in general became firmer owing to changes in supply and demand prospects, linked with the economic upturn in the United States.

In 1960 the fall in prices was greater than in the two previous years and, although it did not reach the proportions attained in 1957, the average cumulative decline over the last four years is now as much as 10 to 20 per cent. Within the average price decline the spread between the highest and lowest prices was particularly wide in 1957; after narrowing in the following

International commodity prices.

Years	Moody	Reuter	Schulze
	percentage changes		
1957	- 11.5	- 15.8	- 8.7
1958	- 0.5	- 2.3	- 1.2
1959	- 3.4	+ 4.9	+ 2.5
1960	- 5.2	- 6.6	- 2.6
1961*	+ 2.6	+ 4.6	+ 2.3
	range of index fluctuations, high above low, in percentages		
1958	4.9	4.7	2.0
1959	5.6	7.1	3.6
1960	8.3	8.1	3.4

\* January to April.

index there were contrasting price movements which varied both in direction and in intensity.

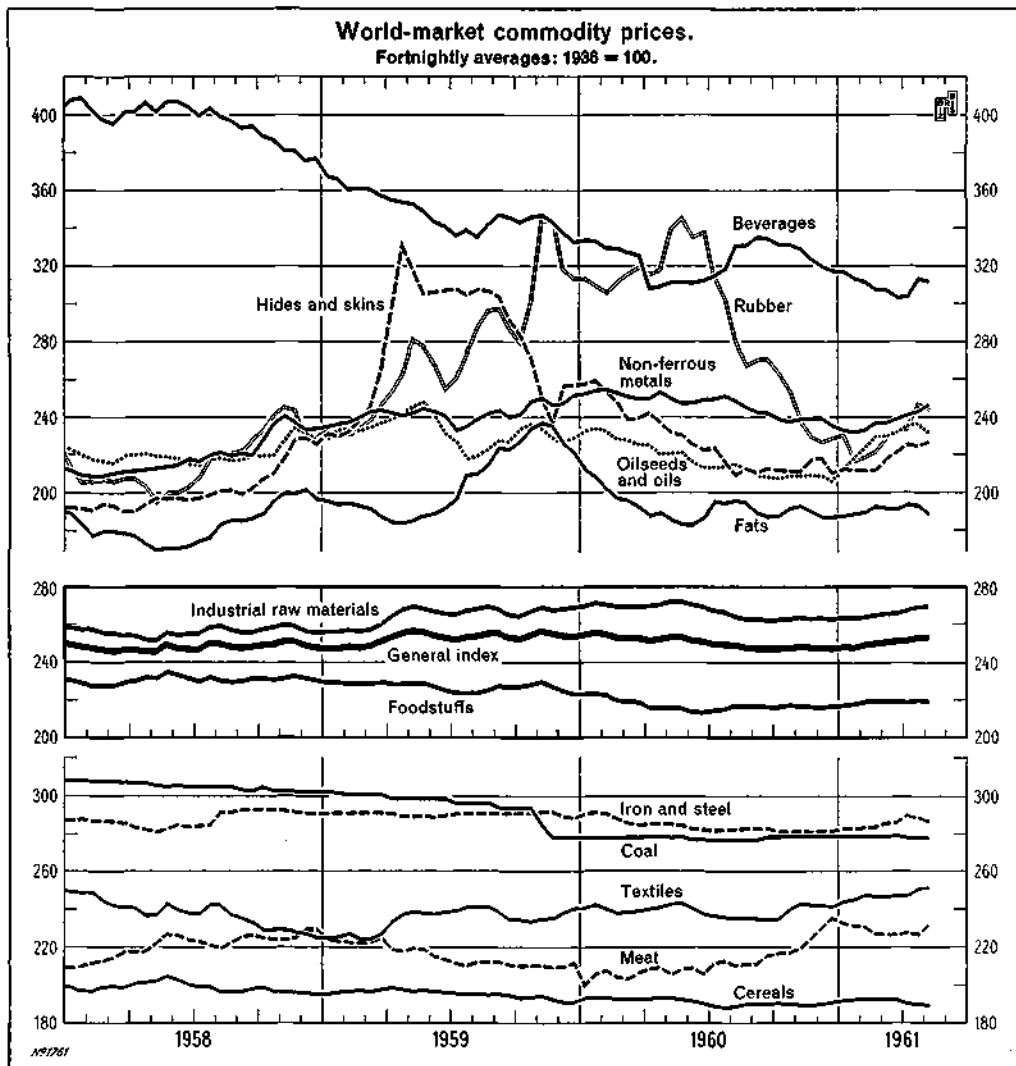
The only commodity group to show a significant rise in 1960 was meat, which went up by 11 per cent., thus regaining the ground lost the previous year. A fresh fall up to the end of April 1961, however, forced prices down once more to their end-of-1958 level. Practically no change was shown by the groups of textiles, coal (which improved slightly) and cereals (which declined somewhat). The other commodities became cheaper — fats by 15.5 per cent., hides and skins by 18.3 per cent. and rubber by 27.1 per cent. During the first four months of 1961 prices rose, on balance, by 2.3 per cent., thus nearly recovering from the downturn experienced in 1960. This movement was comparatively gentle: only oilseed prices increased substantially (by 14.5 per cent.); changes in the prices of other items varied between a rise of 7.7 per cent. and a decline of 3.7 per cent. The trend of the overall index, of its two main components and of its sub-groups during the period from January 1958 to mid-May 1961 can be seen in the graph on the next page.

A distinction may be made between the various commodity groups on the basis of whether their prices have moved smoothly or irregularly over the past few years up to the spring of 1961. The prices of coal, of iron and steel, as well as those of cereals, meat and textiles have developed steadily, while the remaining commodity groups covered by Schulze's Index have fluctuated considerably. This is true especially of hides and skins, beverages and rubber, which experienced a rise followed by a marked decline, and also of fats and oilseeds and foodstuffs in general, which fell.

The table on page 97, comprising a typical selection of raw materials, shows the development of specific commodity prices. The picture that emerges is as follows: (i) in 1960 the prices of a number of important commodities (aluminium, Venezuelan crude oil, some types of steel, synthetic rubber, rayon yarn, coal, tin, zinc and wheat) remained substantially unchanged; (ii) some products experienced downturns of less than 5 per cent., e.g. maize, steel bars, cotton (New York) and mercury, while others advanced by up to

two years, it widened again in 1960, and the spread for individual raw materials is greater still. In this respect the by no means exceptional years of 1959 and 1960 were revealing.

Schulze's Index shows that industrial raw-material prices have been for some time, and were again in 1960, in a better position than other groups, although even they declined. Foodstuff prices, on the other hand, were on the whole less firm. But within the more or less even trend indicated by this



5 per cent., e.g. wood pulp, coffee, soya beans and even sugar. More appreciable changes occurred in the case of Egyptian cotton, lead and copper (- 8 to - 10 per cent.), sisal (+ 6 per cent.) and cotton oil (+ 10 per cent.); (iii) the prices of other commodities dropped sharply, e.g. hides (15 per cent.), wool and cocoa (20 per cent.) and rubber and copra (27 per cent.) — all agricultural products — and also rayon staple (15 per cent.), while the price for steel scrap contracted by no less than 35 per cent.; (iv) finally, the prices of certain products shot up, e.g. those of lard and, above all, jute, which were 30 per cent. and 86 per cent. respectively above their 1959 levels.

These movements persisted in the first quarter of 1961. Certain commodities (e.g. steel in Belgium and steel scrap in the United States) made up their losses of the preceding year, while others (e.g. cocoa) fell further and more or less as steeply as before. Most of the prices which had risen in 1960, however, continued to advance at the same or an even more rapid rate (lard, cotton oil and soya beans).

Changes in the prices of certain major commodities.

Commodities	Markets	Percentage changes during				1960 percentage difference of high over low
		1958	1959	1960	1961 January to April	
<b>Materials of industrial origin</b>						
Crude oil . . . . .	Bradford, Pa.	- 15.1	+ 11.4	+ 9.1	0.0	9.1
Crude oil . . . . .	Venezuela	0.0	- 8.2	0.0	0.0	0.0
Coal . . . . .	United States	- 5.0	- 1.7	- 0.8	0.0	0.9
Copper . . . . .	London	+ 21.8	+ 15.6	- 9.6	- 0.8	27.8
Tin . . . . .	London	+ 3.5	+ 4.3	+ 0.8	+ 5.3	5.4
Lead . . . . .	New York	0.0	- 3.7	- 9.1	- 3.3	9.1
Zinc . . . . .	St. Louis	+ 15.0	+ 9.7	- 0.2	- 7.8	8.3
Steel bars . . . . .	Antwerp	- 23.7	+ 15.6	- 4.8	+ 3.5	5.6
Steel, section . . . . .	Pittsburgh	+ 4.2	0.0	0.0	0.0	0.0
Aluminium Ingots . . . . .	United States	- 4.6	+ 4.9	0.0	0.0	0.0
Mercury . . . . .	New York	- 2.1	- 2.8	- 2.4	- 1.5	2.4
Rubber, synthetic . . . . .	New York	0.0	0.0	0.0	0.0	0.0
Steel scrap . . . . .	Pittsburgh	+ 28.5	- 1.0	- 35.0	+ 34.2	62.3
Rayon yarn . . . . .	New York	- 16.5	+ 7.9	0.0	0.0	0.0
Rayon staple . . . . .	New York	0.0	+ 6.5	- 15.2	0.0	17.9
<b>Materials of agricultural origin</b>						
Wool . . . . .	Melbourne	- 26.9	+ 21.8	- 19.7	+ 5.4	39.4
Cotton . . . . .	New York	- 1.9	- 7.7	- 2.3	+ 4.3	6.5
Cotton . . . . .	Alexandria	- 11.0	+ 8.6	- 8.1	- 0.0	26.3
Jute . . . . .	London	- 9.5	+ 7.6	+ 86.2	+ 3.3	104.1
Sisal . . . . .	London	+ 9.2	+ 25.6	+ 6.3	- 5.4	8.3
Hides . . . . .	Chicago	+ 27.6	+ 20.0	- 15.0	+ 12.8	49.8
Rubber . . . . .	Singapore	+ 1.1	+ 40.5	- 26.6	+ 3.3	71.8
Wood pulp . . . . .	Sweden	- 5.5	- 5.1	+ 5.2	+ 1.3	5.4
<b>Foodstuffs</b>						
Wheat . . . . .	Winnipeg	0.0	+ 1.2	+ 0.6	+ 0.7	3.8
Maize . . . . .	New York	- 1.1	- 4.5	- 4.7	+ 4.1	24.1
Sugar . . . . .	New York	- 7.8	- 15.9	+ 2.3	+ 0.6	22.3
Cocoa . . . . .	New York	+ 2.6	- 24.5	- 19.0	- 10.6	27.0
Coffee . . . . .	New York	- 24.4	- 14.8	+ 1.7	+ 2.3	4.2
Copra . . . . .	London	+ 33.4	- 3.4	- 27.4	- 0.9	49.6
Soya beans . . . . .	Chicago	- 5.4	- 0.2	+ 2.9	+ 44.4	10.0
Cotton oil . . . . .	New York	- 21.9	- 14.9	+ 10.0	+ 32.4	14.6
Lard . . . . .	New York	- 3.6	- 24.5	+ 30.2	+ 21.7	36.1

The underlying cause of the steady downturn and characteristic fluctuations of prices in the course of the year was the fact that production and supply of the various commodities in most cases exceeded the growing demand. In the case of raw materials, and particularly of foodstuffs (among which cereals may be quoted as an outstanding example), it was a matter of increased producer stocks. During the last ten years "carry-over" stocks of feed grains and wheat in the four major exporting countries have doubled or even trebled, with increases from 31 to 64 million tons and from 18 to 54 million tons respectively. Stocks of all types of cereals have risen from 49 to 118 million tons. At the end of 1960 these "carry-overs" were twice as great as total exports in the case of wheat and four times as great in that of feed grains. In the four major producing countries of the West (the United States, Canada, Argentina and Australia) they were about equivalent to an entire wheat harvest. In these circumstances, it was due to the U.S. price-support policy that the quotations for U.S. wheat (between 265 and 235 cents per

bushel) were kept up. Most U.S. wheat exports are, in fact, subject to special conditions or else consist of gift shipments; in 1960 only about one-quarter of the total was exported on a commercial basis.

The prices of oils and fats showed, on balance, a decline, although production did not rise as sharply as in the previous year and consumption increased. There is still an overall excess of supply, which has resulted in serious difficulties for various vegetable products. However, the bad harvest in China, one of the leading exporters of oilseeds, helped to strengthen the quotations for soya beans and groundnuts in particular. The London quotations for soya-bean oil rose from almost £80 per long ton in July–September 1960 to £95 per ton at the end of the year and further to about £115 per ton at the end of April 1961.

The sugar market was faced in 1960 with a series of special problems, which still obtain in 1961. Consumption did not keep pace with production, which showed a further sharp increase. An additional disrupting factor was the political friction centring on Cuba, which supplies at least a third of the sugar entering world trade. One consequence was the U.S. embargo on deliveries of Cuban sugar — which involved annual exports to the amount of 3 million tons. This loss was, however, offset by increased purchases by China and, in particular, the U.S.S.R., amounting to 4 million tons a year at a price of 4 U.S. cents per lb. — lower than the former U.S. price but higher than the world price.

The situation for coffee and cocoa is also difficult. The cocoa crop is expanding year by year, partly owing to improvements in the control of plant diseases and partly owing to the use of higher-yield varieties. In 1960 the one-million-ton mark was passed for the first time, and a crop of 1.2 million tons is forecast for 1961. Consumption has not kept pace with these large-scale increases, although a marked rise did occur in 1960 under the incentive of the sharp drop in cocoa prices between 26th January 1960 and 7th March 1961 from £233 to under £150 per long ton — the lowest level since 1947; prices have, however, recovered somewhat since then.

After serious falls in coffee prices in the three previous years, amounting in the aggregate to about 40 per cent., the downward trend was arrested in 1960, when there was a small average improvement of 1.7 per cent. In the first four months of 1961 these prices went up by a further 2 per cent. This partial recovery gave importing countries the signal to start replenishing depleted stocks. Brazilian support purchases, the extension of the International Coffee Agreement for a further year to 30th September 1961 (the Agreement now covers 93 per cent. of the world's exportable output and export quotas at present stand at 90 per cent. of the member countries' highest annual export figure for the last ten years, or 88 per cent. of exportable production) and the setting-up in December 1960 of an Inter-African Coffee Organisation to stabilise prices for robusta coffee (the standard quality) — all these factors contributed to the strengthening of prices.

Among the group of textile fibres, the price of wool, which had been declining since May 1960, rose again between Christmas 1960 and Easter 1961. From then until the end of the wool-selling season prices held up well. A slightly



reduced wool clip in 1960-61 did not prevent commercial stocks from rising from 155 to 175 million lbs. clean. Consumption of raw wool was estimated to be some 3 per cent. below available supplies. In 1960 wool consumption in most western countries tended to fall off, particularly in the second half of the year. Recently, however, there has been more wool-buying by western European and eastern bloc countries, and especially by Japan, which has helped to strengthen the price.

Balanced conditions have obtained for cotton. During 1960 and the current year production and consumption in the West have been approximately in equilibrium at slightly over 30 million bales, declared stocks totalling some six months' requirements. Decisive influences on the price structure for cotton are the U.S. support price and the U.S. export subsidy. For the new season the support price has been raised from 32.42 to 33.04 cents per lb., i.e. to 82 per cent. of the U.S. "parity price". On account of the higher domestic price the export subsidy had to be increased from 6 to 8 cents per lb.

Jute is the only textile fibre to have shown exceptional price increases. After moving upwards from £104 to £155 per long ton between the end of March and mid-May 1960 and then falling by 20 per cent., the price of L.J.A. Firsts soared in September and October from £120 to £200, to reach eventually its peak level of £211 per ton between 1st and 10th March 1961. Although the price had reacted to £180 by mid-April, it was still substantially higher than a year earlier.

After rising for two years up to the beginning of 1961, prices of natural rubber subsequently declined sharply. The deficit on the supply side in the last two years has given way to a far greater surplus of 130,000 long tons — the largest since 1952; total supplies include, however, some 160,000 tons released from the strategic stockpiles held by the United States, the United Kingdom and Italy. The suspension of stockpiling or releases from existing stockpiles have become a regular feature of the current supply position; more temporary is the fall in purchases of natural rubber by the U.S.S.R. An important influence on demand is the competitive pressure exerted by synthetic rubber, surpluses of which are also accumulating. With an output of 2.7 million tons last year, the share of synthetic rubber in total rubber consumption is rising continuously. In 1960 it went up in the United States from 66 to 69 per cent., in the United Kingdom from 30 to 39 per cent. and in Germany from 34 to 43 per cent., while for the world as a whole the proportion, excluding rubber originating in eastern Europe, is already nearly half, compared with a quarter ten years ago.

Among the non-ferrous metals, nickel shows the influence of the process of building up and liquidating strategic stocks of raw materials. For some years supplies of this metal have been extremely tight and this has led to rises in price. From 1947 to 1957 U.S. purchases for strategic reserves probably absorbed over a third of the West's nickel output. Since the suspension of this stockpiling in 1957 the few producers who dominate the market have sought to keep prices stable at a high level. As a result, the price has remained constant since the normalisation of supply and demand conditions at £600 per ton, or 74 cents per lb. in the United States.

The price of copper fluctuated in 1960 between £279 per ton in April and £218 in October; in mid-January 1961 it reached a low of £216½ per ton, roughly half the level of five years ago, rising again by the middle of May to £244½ per ton, compared with the smelters' and primary producers' price of 31 U.S. cents per lb. The overall decline occurred in spite of the frequent strikes in the industry and the political unrest in Africa. Last autumn several large producers decided, in view of the persistent price fall, to reduce output by 10 per cent. This cut was equivalent to some 300,000 tons a year, which was approximately the figure of the current surplus anticipated at that time. Although consumption rose in 1960, it did not match the expansion of production, and prospects were for an increase in the surplus to some half a million tons by the middle of 1961, with prices still moving downwards. Since the spring of 1961, however, a certain recovery seems to have set in; prices have been rising and stocks decreasing.

Tin is the only raw material whose production has failed to expand since before the war. The industry, by restrictive production and export policies, has limited supplies and thus been able to strengthen prices. Other factors influencing supply are the political unrest in the Congo and Laos and technical difficulties in Bolivia. By drawing on still substantial, but diminishing, stocks, consumption (outside the U.S.S.R.) rose from 165,000 long tons in 1959 to 185,000 in 1960, compared with supply figures of 136,000 and 171,000 tons respectively. In the light of this supply/demand position, the International Tin Council decided to maintain into 1961 the policy of unrestricted exports from producing countries introduced on 1st October last year. Prices have tended to be higher than a year ago, reaching £800 a ton at the beginning of March 1961. On 17th May £870 per ton was recorded after the critical point of £830 had been passed on 6th April. At that price the buffer pool may effect sales on the market, but as its stocks are no higher than 10,000 tons its scope for action does not appear large. If, however, the price were allowed to go beyond £880 per ton, there would be sales from U.S. strategic stocks, which are estimated at 300,000 tons.

The position of zinc and, especially, lead is more critical. The attempts to adjust supply to demand by way of agreements have not been successful. The prices of these two commodities in 1960 sank as low as their levels of fourteen years ago. This was due partly to increased offerings from East and West and partly to the depressed state of consumption. The imbalance continued for both metals in the first few months of 1961.

The output of mineral oil is rising continuously and is outstripping consumption, which is likewise expanding. Efforts by the Organisation of Petroleum Exporting Countries (O.P.E.C.), and especially by Venezuela, to regulate production have so far been fruitless. On the other hand, exports from the U.S.S.R. are increasing, as the country's declared policy is to regain its pre-war share of 19 per cent. of world oil exports (this would be equivalent to some 80 million tons, against some 25 and 35 million tons in 1959 and 1960 respectively). The effects of this keener competition for export markets have made themselves felt in many consuming areas.

### Raw-material production.

Production of raw materials in general, and of the key commodities in particular, rose substantially last year, although, owing to the poorer harvest conditions in some parts of the world, the output of agricultural products showed a slower rate of increase and in some cases even a decline. Production of industrial raw materials, on the other hand, expanded considerably. These developments are illustrated in the following survey of raw-material production since before the war.

Estimates of world production of basic commodities.

Commodities	Units	1937	1959	1960 preliminary	Percentage change		
					1959 over 1958	1960 over 1959	1960 over 1937
Aluminium <sup>1</sup>	1000 tons	493	4,087	4,561	+ 15	+ 12	+ 825
Natural gas	billiard m <sup>3</sup>	80	426	465	+ 12	+ 9	+ 480
Man-made fibres	1000 tons	835	3,106	3,326	+ 15	+ 7	+ 298
Hydro-electricity	billiard kWh	177	635	690	+ 9	+ 9	+ 290
Cement	million tons	82	292	315	+ 11	+ 8	+ 283
Crude oil	million tons	280	978	1,052	+ 8	+ 8	+ 275
Rubber, natural	1000 tons	1,229	2,101	2,030	+ 16	+ 6	+ 266
Rubber, synthetic	1000 tons	83	2,350	2,700			
Brown coal	million tons	252	621	644	+ 1	+ 4	+ 156
Nickel <sup>2</sup>	1000 tons	119	278	305	+ 21	+ 10	+ 156
Steel	million tons	136	305	340	+ 13	+ 11	+ 150
Sugar	million tons	25	50	56	- 1	+ 12	+ 125
Manganese ore	million tons	6	13	14	+ 2	+ 6	+ 125
Soya beans	million tons	13	26	27	- 6	+ 3	+ 111
Maize	million tons	115	220	226	+ 9	+ 3	+ 97
Copper <sup>3</sup>	1000 tons	2,534	4,305	4,978	+ 5	+ 16	+ 96
Zinc <sup>1</sup>	1000 tons	1,636	2,963	3,126	+ 4	+ 6	+ 91
Mercury	tons	4,590	8,032	8,756	- 8	+ 9	+ 91
Rice, rough	million tons	151	260	250	+ 2	- 3	+ 66
Fats and oils <sup>4</sup>	million tons	19	31	31	+ 7	+ 1	+ 66
Coffee, green	1000 tons	2,409	4,707	3,896	+ 27	- 17	+ 62
Hard fibres	1000 tons	529	850	860	+ 7	+ 1	+ 62
Cotton	1000 tons	6,661	10,216	10,192	+ 5	- 0	+ 53
Hard coal	million tons	1,300	1,890	1,970	+ 4	+ 4	+ 52
Lead <sup>1</sup>	1000 tons	1,692	2,407	2,548	- 2	+ 6	+ 51
Wool, greasy	1000 tons	1,718	2,547	2,500	+ 5	- 2	+ 46
Wheat	million tons	167	250	240	- 3	- 4	+ 44
Cococa	1000 tons	732	902	1,032	+ 15	+ 14	+ 41
Tungsten (60%W0 <sub>3</sub> )	1000 tons	39	52	54	+ 3	+ 5	+ 39
Jute	1000 tons	1,965	2,570	2,600	- 8	+ 1	+ 32
Tin <sup>1</sup>	1000 tons	205	170	204	- 2	+ 20	- 0

<sup>1</sup> Smelter production. <sup>2</sup> Metal content of mine production. <sup>3</sup> Refinery production. <sup>4</sup> Oil equivalent.  
Note: Tons are metric tons. Pre-war data for agricultural products are 1937-39 or 1935-39 averages.

Two main features emerge from this picture:

1. In 1960 production of raw materials attained a new record level. There were a few exceptions: the coffee crop, which had been particularly large in 1959, when it increased by no less than 27 per cent., fell by 17 per cent.; the wheat and rice harvests, though they varied from region to region, were 3 or 4 per cent. smaller; and the wool clip declined by 2 per cent. The other commodities showed improvements — sometimes quite considerable — on the previous year; nevertheless, for the majority of them the rate of

expansion was lower. Industrial raw materials once again headed the list. Tin output, after a long period of artificial stagnation, moved up by 20 per cent.; copper rose by 16 per cent., compared with an increase of only 5 per cent. in 1959; aluminium, steel and nickel all showed rises of 10 per cent. or more, after an even greater expansion in the previous year. In 1960 some 9 per cent. more hydro-electricity was generated, which is the same percentage increase as in 1959. Another record cocoa crop brought production of that commodity up by 14 per cent., after a rise of as much as 15 per cent. in 1959. The other items, with agricultural products, particularly foodstuffs, predominating, increased somewhat less in 1960 than in 1959.

The global output of these thirty-one commodities and commodity groups may be divided into two categories — foodstuffs and industrial raw materials. The overall volume of production of foodstuffs contracted somewhat (by 2 per cent.) in 1960, for the first time in three years; in the two previous years it had risen by 15 and 4 per cent. The value of output had already declined slightly in 1959, and in 1960 it fell by a further 6 per cent. The average unit value decreased accordingly. In the case of industrial raw materials, as in the previous year, equal increases were recorded in total volume (at 1958 prices) and in current values. The average unit value of industrial raw materials thus remained practically unchanged, as it has done, in fact, for the past four years. The total volume of production of all the thirty-one commodities and commodity groups registered a fresh increase, though it was not as great as in the two previous years. The rise in terms of current values was smaller still and hence the implicit average price contracted by about 1 per cent. over 1959, against about 2 per cent. in 1959 over 1958.

2. Compared with the pre-war period, production of all the commodities included in the table, with the exception of tin, has expanded — in some cases quite markedly. In particular, industrial raw materials have achieved growth rates ranging from 150 per cent. (steel, nickel and brown coal) to as much as 800 per cent. (aluminium). Production of natural gas increased by 500 per cent., and that of man-made fibres, hydro-electricity, cement, crude oil and rubber (primarily synthetic) almost quadrupled. The remaining commodities, including agricultural products, especially foodstuffs, showed much slower but still appreciable rates of increase.

From 1937 to 1960 the total volume of these commodities (at 1958 prices) more than doubled; over the same period the production value (at current prices) increased fourfold. The rates of expansion of the various commodity groups, however, differ significantly. The volume of foodstuffs produced developed least, increasing by only 67 per cent., compared with an average of 118 per cent. for all commodities. As the world population expanded by 38 per cent. between 1937 and 1960, the volume of foodstuffs available per capita went up by 20 per cent. Production in the other main category, industrial raw materials, showed the most substantial increase, climbing to two and a half times its pre-war level. The development of the new synthetic materials should be particularly noted. In general, the more industrial the nature of a commodity, the greater has been its rate of expansion.

#### IV. WORLD TRADE AND PAYMENTS.

World trade, which had begun to increase again in 1959 after a decline in the previous year, continued to grow in 1960; in the last quarter of the year world trade turnover was 6 per cent. higher in value than in the corresponding quarter of 1959, while the figure for 1960 as a whole was 11 per cent. above that for the previous year. As regards international payments, the United States achieved in 1960 a large export surplus which reduced its deficit on current and long-term capital account, but this reduction was more than offset by an outflow of short-term capital. The O.E.E.C. countries, on the other hand, had a large aggregate import surplus, which, however, was more than compensated by receipts from invisible items.

##### International trade.

*Trade by areas.* The remarkable expansion in western Europe's total trade and the great advance in U.S. exports, which was accompanied by a decline in U.S. imports, reflected the boom conditions in Europe and the recession in the United States. In response to the European boom, primary producers were able to increase their exports, but their imports rose at a faster rate, as financial assistance helped them to purchase equipment and, in certain cases, food.

Growth of international trade, by areas.

Areas	Trade turnover				Annual rates of growth	
	1950	1958	1959	1960	1951-60	1960
	in milliards of U.S. dollars				in percentages	
<b>Developed areas</b>						
E.E.C. . . . .	20.5	45.9	49.6	59.3	11.2	19.6
E.F.T.A. . . . .	21.8	34.9	37.1	41.7	6.7	12.4
Other countries . . . . .	4.1	6.6	7.0	8.0	6.9	14.3
<b>Total for western Europe . . . . .</b>	<b>46.4</b>	<b>87.4</b>	<b>93.7</b>	<b>109.0</b>	<b>8.9</b>	<b>16.3</b>
United States and Canada . . . . .	26.1	43.1	46.1	48.4	6.4	5.0
Japan . . . . .	1.8	5.9	7.1	8.5	16.8	19.7
Australia, New Zealand and South Africa . . . . .	3.8	8.0	8.3	9.3	4.8	12.0
<b>Total for developed areas . . . . .</b>	<b>80.1</b>	<b>144.4</b>	<b>155.2</b>	<b>175.2</b>	<b>6.1</b>	<b>12.9</b>
<b>Underdeveloped areas</b>						
Latin America . . . . .	14.4	20.2	19.5	20.2	3.4	3.6
Other areas . . . . .	22.3	32.6	33.6	36.4	5.0	8.3
<b>Total for underdeveloped areas . . . . .</b>	<b>36.7</b>	<b>52.8</b>	<b>53.1</b>	<b>56.6</b>	<b>4.4</b>	<b>6.6</b>
<b>World trade turnover . . . . .</b>	<b>116.8</b>	<b>197.2</b>	<b>208.3</b>	<b>231.8</b>	<b>7.1</b>	<b>11.3</b>

Prices remained fairly stable from 1959 to 1960 and the terms of trade of developed areas improved by about 1 per cent. In view of this overall price stability, changes in the value of trade may be attributed almost entirely to fluctuations in volume. During the 1950s the trade of underdeveloped areas expanded at a much slower pace than that of developed areas. This is quite a natural development, given the large variety of products which industrialised countries exchange among themselves. In 1959 developed countries' exports to each other accounted for 63 per cent. of their total exports (against 59 per cent. in 1950), whereas underdeveloped countries' exports to each other represented only 25 per cent. of their total exports (against 28 per cent. in 1950). The difference in the rates of expansion of exports from developed areas and those from underdeveloped areas was widened in 1960, when the former increased in volume by 13 per cent. and the latter by 4 per cent. Among industrial countries the greatest rises were registered by the E.E.C. (16 per cent.) and Japan (14 per cent.). These were also the countries with the largest increases in imports over the previous year (Japan 26 per cent. and the E.E.C. 21 per cent.), while the imports of all developed countries increased by 13 per cent. and those of underdeveloped areas by 6 per cent.

The European import boom of 1960 was the largest since the Korean war. From 1959 to 1960 European exports to all areas, with the exception of North America, also increased more than in any year since 1951. Whereas, however, the Korea boom (and also the Suez boom) was based essentially on an expansion of trade in raw materials and fuels, the advance in 1960 was headed by semi-manufactures and finished goods. In O.E.E.C. countries as a whole, imports increased by \$8.6 milliard over their 1959 level. Half of the rise was in respect of intra-area trade and one-quarter in respect of imports from the United States. O.E.E.C. exports, on the other hand, rose by \$6.3 milliard; of this amount, \$4.5 milliard represented an increase in intra-area trade, whereas the remainder was the net result of a fall of \$280 million in exports to the United States and a rise of \$2.1 milliard in those to the rest of the world. As a result of these shifts, the United States' share in O.E.E.C. imports rose from 10 per cent. in 1959 to 12.5 per cent. in 1960, while its share in O.E.E.C. exports dropped from 10 to 8 per cent.

The increase in O.E.E.C. imports from the United States covered all categories of goods, with the exception of cereals and mineral fuels. In January–September 1960 imports from the United States stood \$1.7 milliard higher than in the corresponding period of 1959. Of this total, \$330 million was accounted for by transport equipment (mainly aircraft), \$290 million by textile fibres, \$230 million by base metals and \$190 million by non-electrical machinery, these four groups together representing over 60 per cent. of the increase. The existence of unused capacities in the United States, together with the disappearance of dollar discrimination, no doubt contributed to this expansion. In early 1960 the liberalisation of dollar imports exceeded 90 per cent. in all E.E.C. and E.F.T.A. countries, with the exception of France and Germany, where it amounted to 80 per cent., and of Austria, where it was

only 45 per cent. In the course of 1960 these countries extended their lists and by 1st April 1961 France had liberalised up to 99 per cent., Germany to 89 per cent. and Austria to 91 per cent., so that in all countries the liberalisation percentage for dollar imports was approximately the same as that for intra-European imports. Most of the contraction of \$280 million in O.E.E.C. exports to the United States occurred in the last quarter of 1960, since the overall decline in the first nine months worked out at some \$100 million, this being the net result of falls of \$90 million in sales of base metals (which had been exported at a particularly high rate the year before owing to the U.S. steel strike) and nearly \$70 million in exports of transport equipment, mainly passenger cars, and rises of \$40 million in sales of non-electrical machinery and \$10 million in exports of textile yarns and fabrics.

Trade among O.E.E.C. countries grew by nearly one-fifth from 1959 to 1960 — the highest rate of expansion since the rapid increase of the early 1950s. A comparison of the January–September periods in 1959 and 1960 shows that, excluding Switzerland, the value of intra-O.E.E.C. exports rose by \$3.5 milliard, the following five groups of products accounting for half the increase (in millions of dollars): base metals (650), machinery (440), transport equipment (345), electrical machinery and equipment (170) and mineral fuels and lubricants (160).

The greatest progress, as in previous years, was made by the E.E.C., whose intra-area trade expanded by 25 per cent. from 1959 to 1960.

European trading areas.

Areas	Imports		Exports		Change from 1959 to 1960	
	1959	1960	1959	1960	Imports	Exports
	in millions of U.S. dollars				in percentages	
<b>European Economic Community</b>						
Intra-area trade . . . . .	8,090	10,135	8,180	10,240	+ 25.3	+ 25.2
Trade with rest of O.E.E.C. . . . .	4,425	5,120	6,140	7,320	+ 15.6	+ 19.3
Trade with United States . . . . .	2,495	3,825	2,375	2,245	+ 53.5	- 5.4
Trade with rest of world . . . . .	9,200	10,530	8,655	9,925	+ 14.5	+ 16.0
<b>Total trade . . . . .</b>	<b>24,210</b>	<b>29,610</b>	<b>25,250</b>	<b>29,730</b>	<b>+ 22.3</b>	<b>+ 17.7</b>
<b>European Free Trade Association</b>						
Intra-area trade . . . . .	3,240	3,730	3,040	3,500	+ 15.1	+ 15.1
Trade with rest of O.E.E.C. . . . .	6,230	7,310	4,610	5,135	+ 17.3	+ 11.4
Trade with United States . . . . .	1,845	2,640	1,750	1,590	+ 43.1	- 9.0
Trade with rest of world . . . . .	8,700	9,400	7,600	8,310	+ 8.0	+ 9.3
<b>Total trade . . . . .</b>	<b>20,015</b>	<b>23,080</b>	<b>17,000</b>	<b>18,535</b>	<b>+ 15.3</b>	<b>+ 9.0</b>
<b>Trade of E.E.C. with E.F.T.A. . . . .</b>	<b>3,950</b>	<b>4,510</b>	<b>5,425</b>	<b>6,515</b>	<b>+ 14.1</b>	<b>+ 20.0</b>
<b>O.E.E.C.</b>						
Intra-area trade . . . . .	23,315	27,690	22,885	27,335	+ 18.8	+ 19.4
Trade with United States . . . . .	4,735	6,890	4,315	4,035	+ 45.5	- 6.4
Trade with rest of world . . . . .	18,670	20,730	16,540	18,630	+ 11.0	+ 12.7
<b>Total trade . . . . .</b>	<b>46,720</b>	<b>55,310</b>	<b>43,740</b>	<b>50,000</b>	<b>+ 18.4</b>	<b>+ 14.3</b>

In relation to outside countries, E.E.C. exports went up by 13 per cent., while imports rose by 20 per cent., as shortages which had developed in some sectors had to be made good by larger purchases from abroad, mainly from the United States. In the period January-September 1960, compared with the same period of 1959, the E.E.C.'s imports from the United States rose by \$1 milliard, one-fifth of which was accounted for by transport equipment and one-tenth each by non-electrical machinery and base metals. The expansion of the E.E.C.'s trade both within the area and with the rest of the world slowed down somewhat during the second half of 1960, when the rate of growth of industrial production abated, the reconstitution of stocks had been completed and good crops in the individual countries made them less dependent on imports.

The highest rates of increase in 1960 in trade with the rest of the E.E.C. were recorded by Italy and France, with rises of between 35 and 40 per cent., their trade with each other having developed by as much as 50 per cent. This is partly attributable to the reduction of tariff rates on 1st July 1960 and the enlargement of quotas, measures which have greater effect in the more protectionist countries. In the case of Germany the 24 per cent. rise in imports from the Community was due solely to the country's buoyant economic activity, as the contractual tariff reductions had already been anticipated by the autonomous measures taken in 1957. On the other hand, German exports to the Community, which benefited not only from the reduced customs rates but also from the significant upturn in investment abroad, increased by 26 per cent.

As regards the E.F.T.A. countries, their intra-area trade represents barely one-fifth of their total trade (as against 34 per cent. in the case of the E.E.C.). From 1959 to 1960 it rose by 15 per cent., while the E.F.T.A.'s exports to all other countries went up by only 8 per cent., reflecting the fall in exports to the United States. The E.F.T.A.'s imports from all other countries, on the other hand, rose to the same extent as its intra-area trade.

From 1959 to 1960 the E.E.C.'s exports to the E.F.T.A. rose by 20 per cent. and its imports from the E.F.T.A. by 14 per cent. The increase in each group's exports to the other group roughly corresponds to that in its intra-area trade. A break-down by categories of products for the first nine months of 1960 as compared with the corresponding period of 1959 shows that the expansion of trade in manufactured goods was about twice as great within the E.E.C. as within the E.F.T.A., reflecting the greater dynamism of the former. However, in the two most important sectors, viz. base metals and machinery, the rate of expansion was about the same in both groups of countries but the E.E.C.'s exports to the E.F.T.A. rose much more than its imports from the E.F.T.A. In fact, for all categories of products except raw materials, mineral fuels, and oils and fats, the E.E.C.'s exports to the E.F.T.A. went up more sharply than its corresponding imports.

The trade of both areas with eastern Europe developed considerably in 1960 (indeed, the E.E.C.'s exports rose by nearly 40 per cent., mainly on



account of an increase in Germany's sales to the Soviet Union) but its importance remains small, since it accounts for less than 4 per cent. of total imports or exports in the case of both the E.E.C. and the E.F.T.A.

*Commercial policy.* The growing competition among industrialised countries, especially as far as the export of capital goods to less developed areas is concerned, has recently caused a number of countries exporting such goods to reconsider their export credit insurance systems. The principal feature of these systems (which in most cases date back to pre-war years but have been revised since the war) is the insurance by the state of political and, quite often, commercial risks which may prevent payments and transfers. The beneficiary of the credit insurance is normally the exporter but may also be a financing institution. In accordance with the rules laid down by the Union d'Assureurs des Crédits Internationaux, known as the Berne Union, credits may not be insured for a period of more than five years. But now that more and more heavy capital goods are being exported, including whole plants to be erected and installed abroad, there is a need for longer credit terms. In order to meet this need without infringing the rules of the Berne Union, certain countries have recently extended state insurance to cover investments. Thus, in the German budget for 1959 the guarantee for political risks was made available for direct investment in foreign enterprises and exports of capital equipment for foreign subsidiaries of German firms. It was made subject to a ceiling of DM 2.5 milliard, which was raised to DM 5.0 milliard in the 1960 budget, and will apply to new investments and also to part of the proceeds thereof. In April 1961 the U.K. Government announced that the Export Credits Guarantee Department would be ready to guarantee loans for periods of more than five years made by financial institutions to credit-worthy overseas purchasers. These guarantees are designed to promote exports of large capital projects costing over £2 million and to encourage banks and other financial institutions to lend overseas buyers the necessary funds. Though still limited in scope, investment insurance can be regarded as a means of providing aid to underdeveloped countries on commercial lines.

At the end of 1960 the E.E.C. had been in operation for three years and internal tariffs on industrial products had been cut by 10 per cent. on 1st January 1959 and by another 10 per cent. on 1st July 1960. The first reduction had also applied to outside countries. In the E.F.T.A., on the other hand, a 20 per cent. tariff reduction, restricted to member countries, had taken place on 1st July 1960. Thus, both groups had reduced tariffs by the same percentage but the rate differential between them had increased. The acceleration of the original timetable of the E.E.C. advanced the date of the third 10 per cent. reduction to 1st January 1961 (instead of 1st January 1962) to coincide with the first step towards the setting-up of the common external tariff. In order to advance at the same pace as the E.E.C. with a view to an ultimate fusion of the two groups, the E.F.T.A. has decided to accelerate its own timetable and to cut its tariffs by 10 per cent. as from 1st July 1961 (instead of 1st January 1962). By mid-1961, there-

fore, each of the groups will have reduced its internal tariffs by 30 per cent. Meanwhile, in compliance with Article XXIV of the G.A.T.T. (stipulating that if some of its member countries enter into a customs union the latter's external tariff must not be higher than the general incidence of the duties applied by the individual countries prior to the formation of the customs union), the E.E.C. countries, on the one hand, and their G.A.T.T. partners, on the other, have been conducting negotiations to compensate for the raising of certain duties which, though bound, had been increased by the introduction of the E.E.C.'s common external tariff. Although these negotiations had not been completed by May 1961, further talks on new tariff reductions opened between G.A.T.T. members at the end of May, this being the fifth round of multilateral tariff bargaining since 1947.

In March 1961 agreements of association were signed between Greece and the E.E.C. and between Finland and the E.F.T.A. Because of their special situation, the newcomers are not to be full members of the respective groups. In the case of Greece, however, the way is open to full membership of the E.E.C. The assimilation process will take twelve years, but for some 40 per cent. of the Community's exports to Greece the transitional period can be extended to twenty-two years. Two-fifths of Greece's foreign trade is with countries of the E.E.C. and about 30 per cent. of its exports to these countries is accounted for by tobacco. The Community's import duties on tobacco will be abolished within five years. Greece will be allowed to protect infant industries and to apply tariff quotas. In addition, it will receive \$125 million of financial aid over five years. The entry into force of the agreement is subject to its ratification by Greece and by each of the E.E.C. countries.

The association agreement between Finland and the seven E.F.T.A. countries (with which Finland effects nearly 30 per cent. of its foreign trade) will come into force on 1st July 1961. After an initial reduction of 30 per cent., tariff barriers between Finland and the Seven will be reduced at the same rate as that adopted by the other participants, although the duties protecting some particularly sensitive industries will be lowered more slowly. Finland has been allowed to accord to the Soviet Union the same customs benefits as those which it will, in one form or another, grant to the E.F.T.A. countries. Moreover, for a limited number of products, such as fuels and fertilisers, which are of great importance in its trade with the U.S.S.R., Finland has been permitted to maintain existing quantitative import restrictions vis-à-vis its E.F.T.A. partners.

The proposals for a reorganisation of the O.E.E.C. made at the beginning of 1960 resulted in the signing, on 14th December, of a Convention on the Organisation for Economic Co-operation and Development (O.E.C.D.), which, in addition to the member countries of the O.E.E.C., will include the United States and Canada. The new organisation will be concerned primarily with the pursuit of such policies as will ensure a high rate of growth together with the maintenance of financial stability. It will also put emphasis on the assistance to be given to the countries in process of economic development

and will seek to contribute to the expansion of world trade on a multilateral, non-discriminatory basis. The mutual obligations entered into by member countries of the O.E.E.C. under the Code of Liberalisation of Trade will be discontinued, as these are covered by the G.A.T.T. On the other hand, the Codes concerning the liberalisation of invisibles and of capital movements will remain in force and will continue to be binding on the countries which have adhered to them even if the newcomers do not adopt them. Further, in order to ensure the continuance of liberal trade policies and to prevent domestic measures from having detrimental effects on other countries, reporting of policies and confrontation will take place at regular intervals and will be an essential feature of the trade activities of the O.E.C.D.

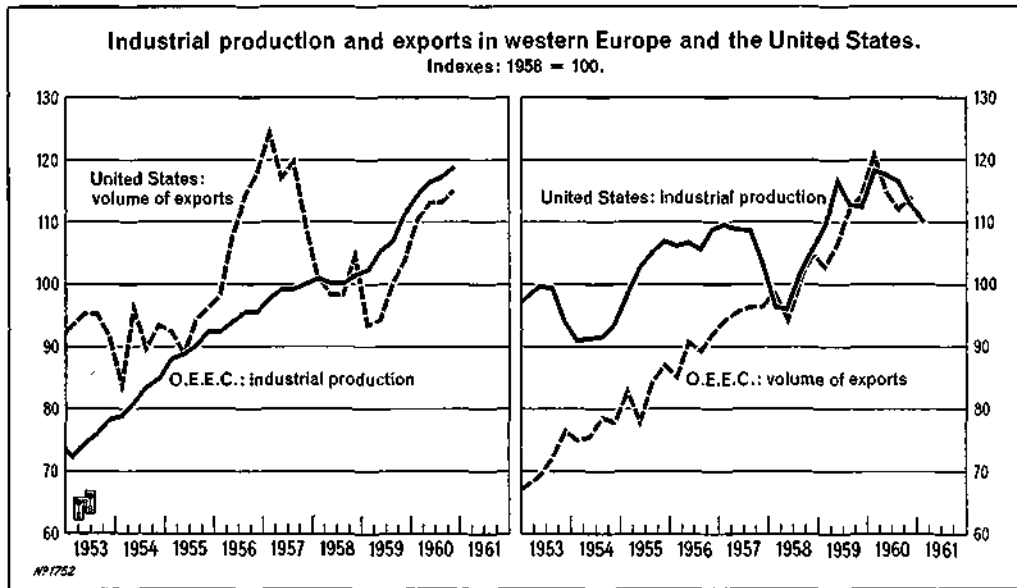
### **Balances of payments.**

*The United States.* Throughout 1960 and during the first quarter of 1961 the U.S. balance of commercial transactions showed surpluses of growing dimensions. In 1960, however, these were offset by increasingly large net outflows of private capital, so that the ensuing gold losses gave rise to some anxiety. In the first quarter of 1961 the external position improved, since the export surplus rose to \$6.9 milliard at an annual rate and the outflow of short-term capital ceased, causing the overall deficit (on current and long and short-term capital account) to shrink to \$300 million, or about \$1 milliard at an annual rate, against \$3.8 milliard for the previous quarter and \$3 milliard for the whole of 1960.

From 1951 to 1955 the trade account of the balance of payments had shown an average export surplus of some \$2.4 milliard. Since then this surplus has moved up and down in rather an erratic manner, reaching a high of \$6.1 milliard in 1957 and a low of \$900 million in 1959 and then jumping up again to \$4.7 milliard in 1960. In all these years, with the exception of 1959, the fluctuations were essentially due to variations in exports; in 1959, however, there was a substantial increase in imports, partly owing to exceptional circumstances such as the prolonged steel strike and large imports of motor-cars. To some extent such movements are attributable to the different cyclical conditions obtaining in the United States on the one hand and western Europe and Japan on the other.

When economic activity is more buoyant in Europe than in the United States, as was the case in 1956-57 and again in 1960, European import demand, which is very sensitive to the level of domestic activity, tends to draw on U.S. exports. When, on the contrary, the upswing in the United States is faster than in Europe, as was the case in the second half of 1958 and the first half of 1959, there is a tendency for U.S. imports to increase and for exports to level off.

Exports rose throughout 1960, though at a slower pace in the last six months of the year. As imports remained fairly stable in the first half and declined in the second half of the year, the export surplus increased



steadily, to reach an annual rate of \$6.3 milliard in the last quarter of 1960, against \$1.5 milliard a year earlier.

The rise in exports from the fourth quarter of 1959 to the fourth quarter of 1960 amounted to \$3.2 milliard at an annual rate. Six groups of commodities accounted for as much as two-thirds of the increase. These were (in millions of dollars): machinery (600), wheat and other grains (490), unprocessed copper (320), raw cotton (320), iron and steel (270) and commercial aeroplanes, mainly jets (170). Exports of aircraft amounted to \$550 million in 1960, against \$160 million in 1959, most of the deliveries taking place around mid-year.

Most of the increase in exports of industrial materials and a large share of the additional sales of capital equipment went to western Europe, while the rise in exports of foodstuffs was mainly due to bigger shipments of grain to India and other Asiatic countries. While exports as a whole went up by 19 per cent., those to western Europe and Japan increased by over 30 per cent. Starting from a narrow base, exports to the countries of the Soviet bloc and to India more than trebled. Exports to Canada and Latin America

**United States: Foreign trade.**

Items	1959	1960	1959	1960				1961
			4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
	Annual totals		Seasonally adjusted, at annual rates					
in millions of U.S. dollars								
Commercial exports . . . . .	16,395	19,550	16,850	18,570	19,520	19,870	20,015	20,400
General imports . . . . .	15,205	14,650	15,330	15,070	15,220	14,660	13,695	13,500
Export surplus . . . . .	1,190	4,900	1,520	3,500	4,300	5,210	6,320	6,900

remained stationary, the sharp decline in trade with Cuba and Venezuela being offset by bigger shipments to other countries.

In the domestic business declines of 1953-54 and 1957-58 non-cyclical factors, such as the large imports of copper in the first period and the steep rise in motor-car purchases in the second, contributed to a rise in imports and thus offset in part the contraction attributable to falling production. During 1960, on the other hand, such factors seem to have reinforced the cyclical downturn. Merchandise imports were \$1.6 milliard lower, at an annual rate, in the fourth quarter of 1960 than in the corresponding quarter of 1959. The decline was ascribable to four groups of products, viz. (in millions of dollars) non-ferrous metals (660), iron and steel (460), passenger cars (430) and capital equipment (110). The fall in imports from Europe came to nearly \$900 million, about one-half being on account of cars.

The balance of services, which is generally much more stable than the balance of trade, showed a surplus of \$1.4 milliard in 1960. The decisive item among services is the large and fairly stable income from direct investment abroad. Since 1956 this has been around \$2.2 milliard, despite the increase in the value of investments, which rose from \$22.2 milliard in 1956 to \$29.7 milliard in 1959. The balance of payments takes account of transferred income only and reflects neither the sharp drop in the oil industry's profits, which has mainly curtailed the undistributed portion, nor the rise in the yield of U.S. investment in manufacturing industries in Europe, most of which seems to have been reinvested.

From the income point of view the international investment position of the United States is very favourable, as U.S. foreign assets consist almost exclusively of direct and other long-term investment, while U.S. liabilities are mainly of a short-term nature. Thus, in 1959 total U.S. investments abroad, amounting to \$64.8 milliard, yielded \$4.1 milliard of transferred and undistributed earnings, whereas other countries' assets and investments in the United States, totalling \$40.7 milliard, yielded about \$1 milliard, of which \$800 million was transferred. The growing importance of U.S. investment in manufacturing industries in Europe, however, is creating competition for U.S. goods on the home and on third markets; if products manufactured by U.S. subsidiaries abroad were to displace U.S.-produced goods, some of the benefits accruing to the U.S. balance of payments from investment earnings would be cancelled out.

Among the largest drains on the U.S. balance are military expenditure and government grants, which have amounted to between \$4.5 and 5 milliard in recent years. In 1959 and 1960 military expenditure stood at over \$3 milliard and grants at \$1.6 milliard. If these items, which are of a recurrent nature, are added to the balance in respect of commercial transactions, the balance on current account shows a deficit of \$2.5 milliard in 1959 and a surplus of \$1.4 milliard in 1960.

The outflow of long-term government capital, which amounted to some \$550 million in 1956, was about twice as large in the following years,

**United States: Balance of payments.**

Items	All areas		Western Europe	
	1959	1960	1959	1960
	in millions of dollars			
<b>Commercial transactions</b> . . . . .				
Balance of trade . . . . .	+ 910	+ 4,695	+ 200	+ 2,515
Balance of services . . . . .	+ 1,305	+ 1,360	- 460	- 585
Balance of commercial transactions . . . . .	+ 2,215	+ 6,055	- 260	+ 1,930
<b>Government transactions</b> . . . . .				
Military expenditure . . . . .	- 3,090	- 3,035	- 1,675	- 1,640
Grants . . . . .	- 1,625	- 1,650	- 310	- 255
Military expenditure and grants . . . . .	- 4,715	- 4,685	- 1,985	- 1,895
<b>U.S. long-term capital movements (net outflow -)</b>				
On government account <sup>1</sup> . . . . .	- 5 <sup>2</sup>	- 570	+ 545	+ 90
On private account . . . . .				
Direct investments . . . . .	- 1,310	- 1,540	- 475	- 880
Other investments . . . . .	- 900	- 755	- 150	- 125
Total private capital . . . . .	- 2,210	- 2,295	- 625	- 1,005
Total U.S. long-term capital . . . . .	- 2,215	- 2,865	- 80	- 915
<b>Foreign long-term capital movements (net inflow +)</b> . . . . .	+ 550	+ 330	+ 475	+ 275
Overall balance on current and long-term capital account . . . . .	- 4,165	- 1,165	- 1,850	- 605
<b>Short-term capital movements (net outflow -)</b> . . . . .	- 445	- 1,765	+ 135	- 320
<b>Unrecorded payments, errors and omissions</b> . . . . .	+ 785	- 905	- 580	- 1,445
Total balance on current, long and short-term capital account . . . . .	- 3,825	- 3,835	- 2,295	- 2,370
<b>Corresponding to</b> . . . . .				
Changes in liquid liabilities (increase -) . . . . .	- 3,095 <sup>3</sup>	- 2,135	- 1,465	- 650
Changes in gold holdings (sales -) . . . . .	- 730 <sup>4</sup>	- 1,700	- 830	- 1,720
Total . . . . .	- 3,825	- 3,835	- 2,295	- 2,370

<sup>1</sup> Long-term capital less repayments.   <sup>2</sup> Excluding \$1,375 million subscription to the I.M.F.   <sup>3</sup> Excluding \$1,031 million non-interest-bearing short-term government securities as counterpart to the I.M.F. subscription.  
<sup>4</sup> Excluding gold payment of \$344 million to the I.M.F.

excluding the additional subscription to the I.M.F. in 1959. In 1960 the outflow of \$1,175 million includes the subscription of \$74 million to the International Development Association. Repayments averaged \$500 to 600 million over the 1956-59 period, except in 1959, when advance repayments were made by Germany and the United Kingdom, which brought the figure to over \$1 milliard and thus cancelled out the whole of the outflow in that year. In 1960 the net outflow was back to nearly \$600 million.

While fluctuations in official capital movements are the result of political decisions, private capital movements respond to changes in the economic situation abroad, although they, too, can be very strongly influenced by political events. The total net outflow of long-term private capital, which had attained a high of \$2.9 milliard in 1957, amounted to \$2.2 milliard in 1959 and \$2.3 milliard in 1960. The bulk is accounted for by direct investment, which in the boom year 1957 exceeded \$2 milliard, fell in the

1958 recession to \$1.1 milliard and went up in 1960 to \$1.5 milliard. A considerable change in the geographical distribution of net direct investment has taken place in the last four years. Whereas as recently as in 1957 more than half of new investment went to Latin America, 28 per cent. to Canada and 12 per cent. to western Europe, in 1960 western Europe held the first place with 57 per cent., followed by Canada, whose share had fallen to 21 per cent., while that of Latin America had shrunk to a mere 6 per cent. The 1960 figure is swollen by the purchase in the last quarter of the year of the shares of the British Ford Motor Company for \$370 million. As the increase in net direct investment in 1960 was offset by a decline in portfolio investment, the outflow on private long-term capital account was of about the same magnitude in both years.

The net inflow of foreign capital is most erratic, its main component being net purchases of U.S. corporate securities by foreigners, an item which fluctuates according to business expectations. In 1960 it amounted to \$250 million, as net purchases of \$286 million in the first half of the year were offset by net sales of \$36 million in the second half. On an average, 60 per cent. of the transactions are carried out with Switzerland, though very likely not all for account of Swiss residents. Direct foreign investment in the United States is of small proportions.

In 1960, in response to higher interest rates abroad, the outflow of private short-term capital increased from quarter to quarter and reached \$570 million, or \$2.3 milliard at an annual rate, in the last quarter of the year. The increase in foreign currency holdings and short-term claims of the U.S. Government remained almost stable at about \$150 million in each quarter, so that, in all, there was an outflow of \$1,765 million in respect of recorded short-term transactions in 1960. To this must be added unrecorded transactions, which, as a result of the interest rate differential and of speculation concerning the maintenance of the value of the dollar, attained considerable proportions in the last quarter of 1960. Assuming, as the U.S. authorities do, that about \$500 million of the errors and omissions item represents unrecorded U.S. services and other more or less recurrent receipts, the residue may be regarded as being attributable to unrecorded movements of capital. In 1960 errors and omissions showed a deficit of \$900 million. Taking into account the above-mentioned receipts of \$500 million, there must have been a net outflow of unrecorded short-term capital of the order of \$1.4 milliard, most of it in the last quarter of the year. Thus, on the short-term capital account an inflow of \$340 million in 1959 was replaced by an outflow of \$2,670 million in 1960. If the balance on current and long-term capital account is added, the overall deficit in both years was almost identical at \$3,830 million. In 1959 this deficit was covered by an increase in liquid liabilities of \$3.1 milliard, of which over one-third was for the account of commercial banks, and by gold sales amounting to over \$700 million. In 1960 gold sales soared to \$1.7 milliard and short-term liabilities rose by \$2.1 milliard.

In November 1960 President Eisenhower announced a series of measures to check the outflow of gold, the most important of these being the application

**United States: Short-term capital transactions  
and changes in liquid liabilities.**

Items	1959	1960	1960			
			1st quarter	2nd quarter	3rd quarter	4th quarter
In millions of dollars						
Balance on current and long-term capital account . . . . .	- 4,165	- 1,165	- 405	- 370	- 520	+ 130
Short-term capital transactions (outflow →)						
U.S. private transactions . . . . .	- 90	- 1,230	- 55	- 160	- 445	- 570
U.S. government foreign currency holdings and short-term claims . . . . .	- 355	- 535	- 150	- 150	- 85	- 150
Total . . . . .	- 445	- 1,765	- 205	- 310	- 530	- 720
Unrecorded transactions . . . . .	+ 785	- 905	5	- 145	- 145	- 610
Total . . . . .	+ 340	- 2,670	- 210	- 455	- 675	- 1,330
Changes in liquid liabilities (increase +)						
International organisations . . . . .	+ 750 <sup>1</sup>	+ 1,020	+ 190	+ 60	+ 165	+ 605
Foreign central banks and governments . . . . .	+ 885	+ 1,285	+ 10	+ 460	+ 535	+ 280
Foreign commercial banks . . . . .	+ 1,150	+ 105	+ 460	+ 150	- 25	- 490
Others . . . . .	+ 310	- 275	- 95	+ 60	- 115	- 125
Total . . . . .	+ 3,095	+ 2,135	+ 565	+ 730	+ 560	+ 280
Changes in gold stock (U.S. sales +) . . . . .	+ 730 <sup>2</sup>	+ 1,700	+ 50	+ 95	+ 635	+ 920
Changes in liquid liabilities and gold . . . . .	+ 3,825	+ 3,835	+ 615	+ 825	+ 1,195	+ 1,200
Short-term capital movements and changes in liquid liabilities and in gold stock . . . . .	+ 4,165	+ 1,165	+ 405	+ 370	+ 520	- 130

<sup>1</sup> Excluding \$1,031 million non-interest-bearing short-term government securities as counterpart to the I.M.F. subscription.   <sup>2</sup> Excluding gold payment of \$344 million to the I.M.F.

of the "buy American" clause to military procurements, purchases of U.S. stores abroad and foreign aid deliveries, and the gradual reduction of the number of dependants of military and civilian personnel abroad. (The latter measure was subsequently rescinded by the Kennedy Administration.) On 6th February 1961 President Kennedy submitted to Congress his message on the balance of payments and gold, embodying measures of a more monetary character and proposals for remedying the basic balance-of-payments deficit and achieving longer-term equilibrium. To this end the government intends to promote exports through an increase in the number of U.S. official commercial agencies abroad and a widening of the scope of the Export-Import Bank's operations (in March the Export-Import Bank announced that its credits and guarantees, hitherto restricted to the export of capital goods, would be extended to consumer goods), expand exports of agricultural products, maintain the "buy American" policy initiated by the previous government in connection with military procurements and economic assistance to foreign countries, limit expenditure by military personnel on tourism and purchases of durable goods, reduce the duty-free allowance for travellers returning to the United States from \$500 to \$100 per person and enact legislation to prevent the abuse of foreign "tax havens", without discouraging legitimate private investment abroad.



*O.E.E.C. countries.* The improvement in the U.S. balance on current account over the past year has had its counterpart, to some extent, in a deterioration of \$1.6 milliard in the combined current balance of payments of O.E.E.C. countries. In Europe, because of its dependence on foreign basic materials, a high level of economic activity is always associated with a large volume of imports and mostly with a large deficit on trade account. In 1958, which was a year of stagnation, the trade deficit of all O.E.E.C. countries combined amounted to roughly \$500 million. In 1959, when growth was

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

Countries	Years	Balance of trade	Net invisible items <sup>1</sup>	Balance on current account	Net inflow (+) of long-term capital	Balance on current and long-term capital account
Belgium-Luxemburg . . . . .	1959	- 85	+ 155	+ 70	- 125	- 55
	1960	.	.	+ 105	- 70	+ 35
France . . . . .	1959	+ 435	+ 305	+ 740	+ 295	+ 1,035
	1960	+ 40	+ 590	+ 630	- 30	+ 600
Germany . . . . .	1959	+ 1,880	- 800	+ 1,080	- 925	+ 155
	1960	+ 1,975	- 780	+ 1,195	- 110	+ 1,085
Italy . . . . .	1959	- 135	+ 890	+ 755	+ 10	+ 765
	1960	- 635	+ 965	+ 350	+ 210	+ 560
Netherlands . . . . .	1959	- 130	+ 535	+ 405	- 180	+ 225
	1960	- 160	+ 505	+ 345	+ 15	+ 360
Total for E.E.C. . . . .	1959	+ 1,965	+ 1,065	+ 3,050	- 925	+ 2,125
	1960	+ 1,220 <sup>2</sup>	+ 1,300 <sup>2</sup>	+ 2,625	+ 15	+ 2,640
Austria . . . . .	1959	- 140	+ 150	+ 10	+ 10	+ 20
	1960	- 265	+ 180	- 85	+ 25	- 60
Denmark . . . . .	1959	- 110	+ 115	+ 5	- 45	- 40
	1960	- 215	+ 125	- 90	.	- 90
Norway . . . . .	1959	- 515	+ 435	- 80	+ 130	+ 50
	1960	- 585	+ 475	- 110	+ 80	- 30
Portugal . . . . .	1959	- 160	+ 100	- 60	+ 25	- 35
	1960	- 175	+ 90	- 85	± 0	- 85
Sweden . . . . .	1959	- 200	+ 195	- 5	- 15	- 20
	1960	- 310	+ 220	- 90	- 15	- 105
Switzerland . . . . .	1959	- 230	+ 405	+ 175	- 110 <sup>3</sup>	+ 65
	1960	- 350	+ 420	+ 70	- 130 <sup>3</sup>	- 60
United Kingdom . . . . .	1959	- 195	+ 335	+ 140	- 1,385	- 1,245
	1960	- 1,025	+ 60	- 965	- 565	- 1,530
Total for E.F.T.A. . . . .	1959	- 1,550	+ 1,735	+ 185	- 1,390	- 1,205
	1960	- 2,925	+ 1,570	- 1,355	- 605	- 1,960
Greece . . . . .	1959	- 210	+ 195	- 15	+ 15	± 0
	1960	- 265	+ 205	- 60	+ 45	- 15
Iceland . . . . .	1959	- 20	+ 5	- 15	+ 5	- 10
	1960	- 15	+ 5	- 10	+ 10	± 0
Ireland . . . . .	1959	- 230	+ 165	- 45	+ 40	- 5
	1960	- 205	+ 215	+ 10	.	+ 10
Spain . . . . .	1959	- 185	+ 205	+ 20	+ 100	+ 120
	1960	+ 55	+ 290	+ 345	+ 55	+ 400
Turkey . . . . .	1959	- 90	- 20	- 110	+ 40	- 70
	1960	- 125	- 5	- 130	.	- 130
Total for O.E.E.C. . . . .	1959	- 320	+ 3,390	+ 3,070	- 2,115	+ 955
	1960	- 2,260 <sup>2</sup>	+ 3,560 <sup>2</sup>	+ 1,425	- 480	+ 945

<sup>1</sup> Including donations.    <sup>2</sup> Excluding Belgium-Luxemburg.    <sup>3</sup> Foreign bond issues only.

resumed, imports rose but, as exports increased much faster, the trade deficit was reduced to \$320 million. In 1960 continuing expansion in Europe, together with a recession in the United States, pushed the deficit up to \$2.3 milliard. Though all countries, with the exception of Germany, Iceland, Ireland and Spain, had a less favourable trade balance in 1960 than in the previous year, the deterioration was chiefly due to a considerable increase in the imports of the United Kingdom, Italy and France, whose trade balances worsened by \$800, 500 and 400 million respectively, so that these three countries account for 85 per cent. of the total deterioration.

Net receipts from invisibles, including donations, rose from \$3.4 milliard in 1959 to not quite \$3.6 milliard in 1960. The rise was more than accounted for by increases of \$285, 95 and 85 million respectively in the net receipts of France, Italy and Spain. Tourist trade was the chief source of increased earnings in Italy, Austria, Switzerland, Greece, Ireland and Spain. In the three Scandinavian countries the aggregate rise of \$75 million in net receipts from invisibles was due to an improvement in freight rates in the course of the year. Total gains of around \$700 million in invisible receipts were partly offset by a severe contraction in the United Kingdom's net receipts, which fell by \$275 million.

In short, the deterioration of \$1.9 milliard on trade account was only compensated to the extent of some \$200 million by larger receipts from invisible items, and the combined surplus on current account, which had amounted to \$3.1 milliard in 1959, fell to \$1.4 milliard in 1960. The deficit on long-term capital account, on the other hand, which, at \$2.1 milliard, was swollen in 1959 by advance repayments and the subscriptions to the International Monetary Fund, fell to \$480 million in 1960. Consequently, the overall surplus of not quite \$1 milliard on current and long-term capital account was almost the same in both years. But, as the official reserves of western European countries rose by \$4.4 milliard during 1960, there must have been an influx of short-term capital of the order of \$3.5 milliard.

*The United Kingdom.* In the United Kingdom the balance on current account deteriorated from 1959 to 1960 by £395 million, of which nearly £300 million was due to a worsening of the balance of trade, mainly in relation to the United States. Imports, as recorded in the customs statistics, had increased substantially in 1959, rising to £3,980 million. They continued to climb throughout 1960, though at a slower rate than in the second half of 1959, and reached £4,560 million for the year as a whole. In the first quarter of 1961 they began to show a small decline. The rise between the fourth quarters of 1959 and 1960 was 9 per cent. and that between the first quarters of 1960 and 1961 only 4 per cent.

There was a particularly strong upturn in imports of equipment, semi-manufactures and finished goods in 1960, reflecting the rise in capital expenditure, the rapid expansion in industrial production until the spring and the rebuilding of stocks, which had been run down at the beginning of the

**United Kingdom: Imports by groups of products.**

Groups of products	1959				1960				1961
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
seasonally adjusted monthly averages, in millions of £ sterling									
Food, beverages and tobacco . . .	129	120	123	133	126	124	129	136	126
Basic materials . . .	71	73	80	86	87	86	92	90	91
Mineral fuels and lubricants . . . .	39	40	37	39	41	39	39	42	45
Semi-manufactures	49	53	55	63	72	77	78	75	74
Finished manufactures . . .	28	31	36	36	42	47	46	46	49
<b>Total * . . .</b>	<b>318</b>	<b>318</b>	<b>332</b>	<b>359</b>	<b>369</b>	<b>375</b>	<b>385</b>	<b>390</b>	<b>385</b>

\* Including miscellaneous goods.

expansionary phase. The additional imports were therefore supplied mainly by industrial countries. Thus, from 1959 to 1960 the United Kingdom's imports from western Europe rose by 20 per cent., those from the United States by 53 per cent. and those from Canada by 20 per cent. In absolute values, imports from the United States increased by nearly £200 million, of which the largest increases were in metals (£51 million), machinery and instruments (£35 million) and jet aircraft (£29 million). Dollar discrimination was gradually done away with in 1958 and 1959 and this has facilitated purchases in the dollar area. Had dollar imports not been freed, other sources of supply or substitutes might have taken their place in response to the strong domestic demand. As it was, between 1958 and 1960 imports from the dollar area of goods to which controls had previously applied rose by £145 million, or not quite one-fifth of the total increase in imports.

U.K. exports, at £3,555 million, were £225 million, or 7 per cent., higher in 1960 than in 1959, in which year they had mounted steadily. In 1960 a rise in the first quarter was followed by a fall in the next two quarters, and it was only towards the end of the year that a recovery set in. Half the increase in the total in 1960 was accounted for by exports to western Europe, while sales to the United States fell by £35 million because of a sharp drop in car exports in the second half of the year and a decline in metal exports from the exceptionally high level reached in 1959. Owing to the reduction in exports and the great expansion of imports, the balance of trade with the United States, which had been almost in equilibrium in 1959, showed a deficit of £240 million in 1960. The United Kingdom's exports to the sterling area rose by 7 per cent. from 1959 to 1960, a rate of increase far smaller than that registered by other industrial countries' exports to that area.

In addition to the deterioration of almost £300 million in the balance of trade (imports valued f.o.b.) there was a contraction of nearly £100 million in net returns on invisible items, the downturn already evident in 1959 as

**United Kingdom: Balance of payments.**

Items	1958	1959	1960
	in millions of £ sterling		
<b>Merchandise trade (f.o.b.)</b>			
Imports . . . . .	3,330	3,578	4,077
Exports and re-exports . . . . .	3,392	3,509	3,711
<b>Balance of trade . . . . .</b>	<b>+ 62</b>	<b>- 69</b>	<b>- 366</b>
<b>Invisible items (net)</b>			
Government transactions . . . . .	- 222	- 234	- 287
Investment income . . . . .	+ 261	+ 223	+ 179
Other services . . . . .	+ 190	+ 131	+ 130
<b>Total invisible items . . . . .</b>	<b>+ 229</b>	<b>+ 120</b>	<b>+ 22</b>
<b>Balance on current account . . . . .</b>	<b>+ 291</b>	<b>+ 51</b>	<b>- 344</b>
<b>Long-term capital account (net outflow —)</b>			
Official . . . . .	- 49	- 353 <sup>1</sup>	- 100
Private . . . . .	- 130	- 142	- 101
<b>Total long-term capital outflow . . . . .</b>	<b>- 179</b>	<b>- 495</b>	<b>- 201</b>
<b>Balance on current and long-term capital account . . . . .</b>	<b>+ 112</b>	<b>- 444</b>	<b>- 545</b>
<b>Corresponding to</b>			
Miscellaneous capital (net) . . . . .	- 2	- 8	- 119
Overseas sterling holdings (increase —)			
of countries . . . . .	- 60	- 154	- 380
of non-territorial organisations . . . . .	+ 22	- 62	+ 156
Official holdings of non-convertible currencies (increase +) <sup>2</sup>	- 13	- 17	- 2
Gold and convertible currency reserves (increase +) . . . . .	+ 284	- 119	+ 177
<b>Total monetary items . . . . .</b>	<b>+ 211</b>	<b>- 380</b>	<b>- 168</b>
Errors and omissions . . . . .	- 99	- 64	- 377
<b>Total . . . . .</b>	<b>+ 112</b>	<b>- 444</b>	<b>- 545</b>

<sup>1</sup> Including the subscription of £232 million to the I.M.F. and the advance repayment of £89 million in respect of the Export-Import Bank Loan. <sup>2</sup> Including the U.K. balance in the E.P.U.

Note: Changes in the basis of compilation have substantially altered the figures for the current and long-term capital account back to 1958. The above data are therefore not comparable with those published in previous Reports.

compared with 1958 thus having continued. This was for the most part due to an increase of £53 million in net government expenditure (mainly military) and a decrease of £44 million in net receipts from investment, income from this source having fallen while corresponding payments by the United Kingdom rose, reflecting the high rates of interest prevalent during the year. The current-account deficit of £344 million, the biggest since the Korea crisis, was partly offset by a decline in the net outflow of long-term capital, both official and private. The reduction of £253 million in the outflow of official capital is explained by the fact that in 1960 no special transactions had to be financed, whereas the 1959 figure includes the subscription to the International Monetary Fund and the repayment of a loan to the Export-Import Bank. The net outflow of private capital also declined. This was entirely attributable to changes in net U.K. investment abroad, which was reduced by the receipt of £24 million from the United Arab Republic in compensation for the seizure of the Suez Canal.

United Kingdom: Flow of private long-term capital.

Type of investment	1958	1959	1960
	in millions of £ sterling		
U.K. net investment abroad			
Direct <sup>1</sup> . . . . .	- 145	- 178	- 185
Other <sup>2</sup> . . . . .	- 178	- 139	- 89
Total . . . . .	- 323	- 317	- 274
Foreign net investment in the United Kingdom			
Direct <sup>1</sup> . . . . .	+ 87	+ 126	+ 148
Other <sup>2</sup> . . . . .	+ 106	+ 49	+ 25
Total . . . . .	+ 193	+ 175	+ 173
Net outflow of private capital . . . . .	- 130	- 142	- 101

<sup>1</sup> Excluding investment in the oil and insurance sectors.  
oil and insurance companies.

<sup>2</sup> Including portfolio investment and investment by

Net foreign investment in the United Kingdom did not change much in the years under review. The figure for 1960, however, does not include the purchase of the British Ford Motor Company's shares by the American company for £131 million. This transaction appears temporarily as an increase in the sterling holdings of non-sterling countries and will only be shown in the long-term capital account in 1961. In recent years the United States has become a net investor on an increasing scale in the United Kingdom. In relation to western Europe the outflow and inflow of private capital are more nearly balanced, although the United Kingdom remains a net investor. Almost one-half of U.K. private direct investment abroad, however, is accounted for by the sterling area, which is also the main recipient of government loans. In the last three years these have amounted to £18, 44 and 57 million respectively, while government loans to other areas totalled only £13 million for all three years together. But whereas private investment capital flows mainly to developed countries, the bulk of new government lending goes to the less-developed areas.

The difference between the very large overall deficit of £545 million on current and long-term capital account in 1960 and the deterioration of £168 million in the monetary items is seen in the item "Errors and omissions" of £377 million, which probably represents an inflow of capital — mainly, but not entirely, short-term — attracted to London by higher interest rates.

*France.* France's balance of payments for 1960 showed a considerable increase in imports compared with 1959, which, despite a rise in exports, almost cancelled out the trade surplus of \$435 million achieved that year. Since the French balance of payments is on a cash basis, the extension of longer credit terms to foreign customers in 1960 made the export figure appear smaller than it actually was. As net invisible receipts rose, however, the surplus on current account fell only from \$740 to 630 million. At the same time the net inflow of private long-term capital declined from \$570 to 320 million as a result of a contraction in portfolio investment and because

there was no further repatriation of French capital, so that the overall surplus on current and long-term account was reduced from over \$1 milliard in 1959 to \$600 million in 1960.

In 1960 imports (c.i.f.) and exports (f.o.b.) increased by more than 20 per cent. over their 1959 level. Both imports and exports fell quite sharply in the second quarter of the year, but then imports grew rapidly again until the end of the year, while exports rose more hesitantly at first, not showing a fresh burst of expansion until the first quarter of 1961, when imports fell off somewhat.

France: Trade with foreign countries and the franc area.

Items	1959				1960				1961
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
seasonally adjusted monthly averages, in millions of U.S. dollars									
Exports . . . . .	409	473	490	507	609	550	572	558	588
Imports . . . . .	402	405	413	484	528	482	535	545	535
Export surplus	6	68	77	23	81	68	37	13	53

From 1959 to 1960 imports from the franc area increased by \$200 million, of which some \$120 million represented larger oil deliveries from the Sahara, while imports from countries outside the franc area rose by nearly \$1 milliard. The rise in imports from foreign countries was mainly accounted for by manufactured goods (including Boeing aircraft to the value of \$100 million); the total increase in these was equal to \$740 million, of which one-third was in respect of capital goods. Imports of raw materials went up by \$280 million, while those of energy products actually fell, because of the shift in sources of supply, by \$60 million.

The reduction of customs duties within the European Economic Community and the gradual extension of the degree of liberalisation vis-à-vis O.E.E.C. countries and the dollar area doubtless helped to raise imports of manufactured goods last year and will probably continue to do so in the future. On 1st April 1961 the liberalisation percentage for imports from O.E.E.C. countries was raised to 95.5 (1957 basis) and that for imports from the United States and Canada to 98.9 (1953 basis). Simultaneously, and for reasons of internal price stability, customs duties were reduced by 5 per cent. and, in some cases, by 10 per cent.

In 1960 imports from the E.E.C. were 35 per cent. greater than in the previous year and imports from the United States increased by as much as 74 per cent. As exports to the United States fell by 15 per cent., mainly on account of reduced sales of motor-cars, the export surplus of \$37 million achieved in 1959 in regard to that country was replaced by a deficit of \$350 million in 1960. This was, however, compensated by a rise in exports to most other areas, in particular the E.F.T.A. countries, so that trade with foreign countries was once more, as in 1959, practically in equilibrium.

**French franc area: Balance of payments.**

Items	1958	1959	1960 <sup>1</sup>
	in millions of U.S. dollars		
<b>Metropolitan France</b>			
<b>Merchandise trade (f.o.b.)</b>			
Imports . . . . .	3,535	3,375	4,420
Exports . . . . .	3,240	3,810	4,480
Balance of trade . . . . .	- 295	+ 435	+ 40
Invisible Items (net) <sup>2</sup> . . . . .	+ 75	+ 305	+ 590
Balance on current account . . . . .	- 220	+ 740	+ 630
<b>Long-term capital account (net outflow -)</b>			
Official <sup>3</sup> . . . . .	+ 145	- 275	- 350
Private <sup>4</sup> . . . . .	+ 365	+ 570	+ 320
Balance on long-term capital account . . . . .	+ 510	+ 295	- 30
Balance on current and long-term capital account	+ 290	+ 1,035	+ 600
<b>Corresponding to</b>			
Balance of rest of French franc area (deficit +) . . . . .	+ 100	- 60	+ 30
Short-term capital (net outflow +) <sup>5</sup> . . . . .	+ 20	+ 55	+ 30
Changes in net positions of banks (increase +) . . . . .	+ 65	- 55	+ 20
Changes in official assets (increase +)			
Gold and convertible currencies . . . . .	+ 405	+ 670	+ 350
Others, net (I.M.F., E.P.U., etc.) . . . . .	- 300	+ 425	+ 170
Total . . . . .	+ 290	+ 1,035	+ 600

<sup>1</sup> Preliminary. <sup>2</sup> Including donations (U.S. aid and German payments in respect of the Saar). <sup>3</sup> Including repayment of bilateralised E.P.U. debts amounting to \$131 million in 1959 and \$133 million in 1960. <sup>4</sup> For 1958 and 1959 private capital movements cannot be separated into long and short-term. They are thus shown under long-term capital for those years. In 1958 the figure of \$365 million includes gold purchases by the Bank of France on the Paris market to the amount of \$216 million. In 1959 short-term capital movements seem to have been negligible. <sup>5</sup> Including errors and omissions.

In contrast with the dwindling export surplus, net receipts from invisibles nearly doubled in 1960, to reach \$590 million. Nearly all the component items contributed to this improvement. Expenditure on maritime transport was reduced, and receipts from tourism rose to \$500 million, while the expenditure of French tourists abroad came to roughly half that amount. Net transfers abroad of foreign workers' earnings have fallen to \$100 million since the restoration of confidence in the franc.

The outflow of official capital, which increased from \$275 million in 1959 to \$350 million in 1960, reflects advance debt repayments. Most of France's foreign debts were contracted in the immediate post-war years. They stood at their highest level at the end of 1952, when the figure was \$3,328 million, of which \$2,667 million represented long-term debts (mainly U.S. Government and Export-Import Bank loans), \$201 million medium-term debts (U.S. bank loans) and \$460 million short-term debts (E.P.U. and I.M.F. credits).

Since then France's long-term indebtedness has been gradually reduced, mainly as a result of contractual repayments, to \$1,815 million at the end of 1960. Its short-term indebtedness reached a peak of \$880 million at the end

**France: Repayments of external public debt.**

Debts	1959		1960		Debt outstanding at end of 1960
	Advance repayments	Total <sup>1</sup>	Advance repayments	Total <sup>1</sup>	
in millions of U.S. dollars					
U.S. Government and O.F.L.C. <sup>2</sup> . . . . .	1	1	—	20	558 <sup>3</sup>
First and second Export-Import Bank loans . . . . .	24	72 <sup>4</sup>	24	73 <sup>4</sup>	668
Other debts (Export-Import Bank, I.B.R.D., W.A.A., <sup>5</sup> British and Canadian Governments) . . . . .	—	42	24	66	589
E.P.U. . . . .	60	131	137	183	312
I.M.F. . . . .	212	212	131	181	—
<b>Total . . . . .</b>	<b>297</b>	<b>458</b>	<b>316</b>	<b>523</b>	<b>2,127</b>

<sup>1</sup> Advance and contractual repayments. <sup>2</sup> Office of Foreign Liquidation Commissioners. <sup>3</sup> Including \$59 million of extended maturities and postponed interest payments. <sup>4</sup> Including repayments due on 1st January of the following year. <sup>5</sup> War Assets Administration.

of 1958, after the country, faced with a very serious balance-of-payments crisis the year before, had obtained substantial credits from the E.P.U. and made use of its drawing rights in the I.M.F. The E.P.U. debt was consolidated in 1959 and reduced to \$312 million at the end of 1960, while the \$394 million debt to the I.M.F. was entirely repaid by the same date.

*Germany.* The German balance on current account, including indemnities and grants, showed a surplus of DM 5 milliard in 1960, or DM 490 million more than in the previous year. Of the latter figure, DM 410 million was due to a larger export surplus and DM 80 million to reduced net expenditure on invisible items.

According to customs statistics (imports valued c.i.f.), exports rose from DM 41.2 milliard in 1959 to DM 47.9 milliard in 1960 and imports went up from DM 35.8 to 42.7 milliard, so that there was a very small decline in the export surplus, which amounted to DM 5.2 milliard in 1960. The upsurge in exports towards the end of the year, which continued in the early months of 1961, widened the gap again, and in the first quarter the export surplus amounted to DM 1.9 milliard. The growth in exports from 1959 to 1960 was mainly attributable to larger sales of capital goods, particularly machinery, which rose by DM 1.4 milliard to DM 8.9 milliard (or nearly one-fifth of total exports), passenger cars, which increased by DM 460 million to DM 3.8 milliard, despite a decline of not quite DM 100 million in sales to the United States, and products of the electro-technical industry, which advanced to over DM 4 milliard. Foreign orders for the latter, as well as for machinery, exceeded actual deliveries throughout 1960. Imports responded to the high level of economic activity, which pushed up purchases of raw materials and, in particular, semi-finished goods. As domestic production of manufactured goods reached full capacity in several branches, imports of such goods also increased considerably. The stability of Germany's export surplus in the last two years conceals some major shifts in the geographical distribution. Thus the deficit in relation to the United States increased from DM 800 million in 1959 to DM 2.3 milliard in 1960 as a result of a



substantial growth in imports. The surplus in respect of transactions with the E.F.T.A. countries went up from DM 3.7 to 5.0 milliard (mainly owing to larger exports to Austria, Sweden and Switzerland), while that in respect of trade with E.E.C. countries rose by only DM 300 million to DM 1.4 milliard.

**Germany: Balance of payments.**

Items	1958	1959	1960
	in millions of Deutsche Mark		
<b>Merchandise trade (f.o.b.)</b>			
Exports . . . . .	36,850	41,025	47,850
Imports . . . . .	29,380	33,140	39,555
Balance of trade . . . . .	+ 7,470	+ 7,885	+ 8,295
<b>Invisible items (net)</b>			
Commercial services <sup>1</sup> . . . . .	- 3,470	- 4,830	- 4,880
Receipts in respect of foreign troops . . . . .	+ 3,880	+ 4,120	+ 4,290
Indemnities and grants . . . . .	- 1,650	- 2,635	- 2,675
Total invisible items . . . . .	- 1,240	- 3,345	- 3,265
<b>Balance on current account . . . . .</b>	<b>+ 6,230</b>	<b>+ 4,540</b>	<b>+ 5,030</b>
<b>Long-term capital account (net outflow -)</b>			
Official . . . . .	- 1,360	- 2,770	- 1,440
Private . . . . .	- 515	- 1,105	+ 985
Total long-term capital outflow . . . . .	- 1,875	- 3,875	- 455
<b>Balance on current and long-term capital account</b>	<b>+ 4,355</b>	<b>+ 665</b>	<b>+ 4,575</b>
<b>Corresponding to</b>			
Short-term capital movements (net outflow +)			
Official . . . . .	- 225	+ 1,170	+ 755
Private . . . . .	+ 735	+ 1,205	- 2,890
Total . . . . .	+ 510	+ 2,375	- 2,135
Changes in terms of payment (in favour of Germany -)	+ 655	+ 495	- 1,295
Gold and exchange reserves <sup>2</sup> (increase +) . . . . .	+ 3,190	- 2,205	+ 8,005
Total . . . . .	+ 4,355	+ 665	+ 4,575

<sup>1</sup> Including merchanting trade.   <sup>2</sup> Including changes in bilateral claims derived from former E.P.U. credits.  
 Note: As from 1st July 1959 the foreign trade of the Saar is included in that of Germany. In 1960 it represented 3.5 per cent. of the imports and 3.9 per cent. of the exports of the Federal Republic.

In 1960 receipts from the stationing of foreign troops increased by DM 170 million, while the deficit in respect of commercial services and indemnities and grants remained at practically the same level in both years. In 1959 total indemnities of DM 2.6 milliard included special payments, amounting to over DM 500 million, in connection with the incorporation of the Saar into Germany and the maintenance of British troops. In 1960 bigger indemnification payments, the rise in which also amounted to about DM 500 million, were made to governments and individuals.

The net outflow of long-term capital, a normal feature of the German balance of payments, reached a peak of DM 3.9 milliard in 1959, owing mainly to heavy purchases of foreign securities by German residents and advance repayments of government debts. In 1960 the net long-term capital

outflow was reduced to DM 450 million, the contraction of DM 3.4 milliard being mainly the result of a shift of DM 2.3 milliard in the net balance of security transactions and a decline of DM 1 milliard in redemption payments under the London Debt Agreement.

Germany: Transactions in domestic and foreign securities.

Years	Domestic securities			Foreign securities			Net security transactions
	Sales to foreigners	Repurchases	Net sales	Purchases from foreigners	Resales	Net purchases	
in millions of Deutsche Mark							
1957	1,360	590	770	70	20	50	+ 720
1958	1,800	1,210	590	380	105	275	+ 315
1959	2,530	2,060	470	2,000	570	1,430	- 960
1960	4,340	2,275	2,065	1,715	1,010	705	+ 1,360

During 1959 net purchases of foreign securities by German residents had exceeded by about DM 1 milliard foreign investment in German securities. In 1960 the situation was reversed and net sales of German securities to foreigners, which amounted to DM 2.1 milliard, were nearly three times as large as net purchases of foreign securities by German residents. Of the total net amount of German securities sold to foreigners, two-thirds was accounted for by fixed-interest-bearing paper. Net sales of such paper amounted to DM 100 million in each of the first two quarters of 1960 and increased to DM 445 and 733 million in the third and fourth quarters respectively. This tendency continued in the first few months of 1961, although it was less marked. Private capital movements other than security transactions were relatively unimportant, having represented a net outflow of not quite DM 400 million in 1960.

The net outflow of official long-term capital fell from DM 2.8 milliard in 1959 to half that amount in 1960, nearly all of the change being attributable to a reduction in redemption payments under the London Debt Agreement, which had been particularly large in 1959 owing to advance repayments. German capital contributions to international organisations, which in 1959 included the additional subscription to the I.M.F., declined from DM 830 million in that year to DM 400 million in 1960. In April 1961 the German Government repaid the greater part (\$587 million) of its post-war debts to the United States and the remainder (£67.5 million) of its debt to the United Kingdom, so that the total of Germany's outstanding post-war debts has now been reduced to \$200 million.

Short-term capital movements, which had registered a net outflow of DM 2.4 milliard in 1959, yielded a net inflow of DM 2.1 milliard in 1960. This turn-about of DM 4.5 milliard was almost entirely due to private transactions, mainly by German banks. In the course of 1960 the banks reduced their foreign short-term assets by DM 1.1 milliard to DM 2.4 milliard (almost completely cancelling out the previous year's increase of DM 1.6 milliard), while at the same time their liabilities to foreigners

Germany: Short-term investment account.<sup>1</sup>

Years	Net German investment abroad			Net foreign investment in Germany			Net position	Change in terms of payment
	Private <sup>2</sup>	Official <sup>3</sup>	Total	Private	Official	Total		
In millions of Deutsche Mark								
1957	- 640	- 1,705	- 2,345	+ 635	- 5	+ 630	- 1,715	+ 1,695
1958	- 650	+ 200	- 450	- 90	+ 20	- 70	- 520	- 655
1959	- 1,430	- 1,385	- 2,815	+ 225	+ 215	+ 440	- 2,375	- 495
1960	+ 1,020	- 1,085	- 65	+ 1,870	+ 330	+ 2,200	+ 2,135	+ 1,295

<sup>1</sup> Outflow (-). <sup>2</sup> Mainly commercial banks. <sup>3</sup> Mainly advance payments for defence imports.

grew by DM 1.2 milliard to DM 4.9 milliard. At the end of the year, therefore, the net indebtedness of the commercial banks amounted to DM 2.5 milliard, as against only DM 270 million at the end of 1959. A complete reversal occurred in the first two months of 1961, followed by renewed borrowing in March, at the end of which month the banks' net indebtedness amounted to DM 630 million. Apart from the banks, trade and industry also borrowed on a large scale in 1960 to an estimated total of nearly DM 600 million. On official account there was a net outflow of over DM 750 million in 1960, representing, for the most part, advance payments for future armaments deliveries. Finally, if errors and omissions are considered to include mainly changes in the terms of payment, there was an additional inflow of short-term capital of DM 1.3 milliard in 1960, compared with an outflow of DM 500 million in the previous year.

*The Netherlands.* In the Netherlands, too, changes in long-term capital movements played a decisive part in shaping the country's basic balance of payments in 1960. As in the two previous years, there was a substantial, though declining, surplus on current account, which amounted to Fl. 1.5 milliard in 1959 and Fl. 1.3 milliard in 1960. The decrease was due to a larger deficit in merchandise trade, which rose from Fl. 490 million in 1959 to Fl. 610 million in the following year, as imports — mainly those of capital and consumer goods — expanded throughout the year in response to the internal boom conditions, while exports levelled off somewhat in the middle of the year. In addition, net receipts from invisible items, which have been fairly stable around Fl. 2 milliard in recent years, were Fl. 100 million lower in 1960 than in 1959, mainly because of higher interest and dividend payments on Dutch bonds and shares held abroad.

In 1959 the net outflow of capital had amounted to Fl. 1,250 million; in 1960 it was down to Fl. 150 million, partly because the outflow of official capital, which had been swollen in 1959 by special transactions, was considerably reduced in 1960. Although in absolute terms private capital movements in 1959 and 1960 were on a far larger scale than government transactions, the inflow and outflow cancelled each other out almost completely, leaving only a small deficit of Fl. 60 million in 1959 and a surplus of Fl. 90 million in the following year. The outflow of Dutch private long-term capital amounted to

Fl. 1.4 milliard in 1959 and Fl. 1.2 milliard in 1960. In the latter year it was fairly evenly divided between security purchases, direct investment and the granting of credit, in which field the banking sector played an increasingly important part. Purchases of foreign securities by Dutch residents continued to increase in 1960, mainly as a result of large-scale buying of German securities in the second half of the year. Sales of Dutch securities to foreigners also showed a further rise, however, and the net inflow of capital from security transactions thus increased somewhat, from Fl. 520 to 590 million. Dutch investments abroad fell from Fl. 930 million in 1959 to Fl. 380 million in 1960. Owing to the strong position of the florin after the revaluation, it was decided in April 1961 to reopen the capital market, which had been closed to foreign issues since 1955, to a limited amount of such issues subject to the approval of the Nederlandsche Bank.

*Belgium.* Since the end of the war Belgium has normally had a deficit on current account vis-à-vis foreign countries, which has been more than compensated by a surplus in relation to the Congo and Ruanda-Urundi, due mainly to large receipts from services such as shipping and air freight, investment income, and expenditure in Belgium by colonial companies. In the first half of 1960 this pattern still obtained and there was an overall surplus on current account (including private and official donations) of B.fcs. 7.9 milliard. After the Congo had been granted independence on 30th June 1960, however, the balance deteriorated and in the second half of the year there was an overall deficit of B.fcs. 2.6 milliard. The surplus for 1960 as a whole, at B.fcs. 5.3 milliard, was nevertheless B.fcs. 1.7 milliard above the previous year's figure. During the whole post-war period there has also been a net outflow of private capital (excluding transactions in commercial paper), of which the greater part has been in relation to foreign countries. In most years the Congo was a net recipient of Belgian private capital, but in 1959, in view of the uncertain political situation, funds were repatriated on a large scale, so that the total net outflow of private capital amounted to only B.fcs. 900 million (against an average of B.fcs. 7 milliard in previous years). In 1960 the net outflow rose again to B.fcs. 2.9 milliard. As regards public funds, both long and short-term, there is generally an excess of borrowing over repayments. In 1959, however, there was a net outflow of B.fcs. 3.6 milliard, which was accounted for by the subscription to the I.M.F. The situation was reversed in 1960, when, owing to heavy short-term borrowing by the Treasury in the last four months of the year, borrowing exceeded repayments by B.fcs. 5 milliard.

*Italy.* Italy's balance of trade deteriorated by \$500 million in 1960, owing essentially to a substantial rise in imports, which increased by 40 per cent. in value over the previous year. Imports of raw materials and semi-manufactures rose steeply in the first six months, when, in addition to the rapid expansion of industrial production, stocks were replenished. In the second half of the year the growth in industrial production and in imports slowed down, although poor crops necessitated additional imports of cereals. For the year as a whole, imports of foodstuffs rose by 36 per cent. over their 1959 level.

Even greater, however, were the increases in respect of mineral products, metal and scrap (66 per cent.) and engineering products (59 per cent.), thus reflecting the strong demand for capital goods resulting from the expansion of investment. Whereas engineering products represented 15 per cent. of total imports in 1960, they accounted for almost one-third of total exports in that year, or 35 per cent. more than in the previous year, while total exports increased by 25 per cent. However, as external demand fell off after the first quarter of 1960, the rise in exports, particularly of textile products and semi-finished goods, slowed down and exports of motor-cars actually declined in the second half of the year. Exports of foodstuffs increased very little, as supplies were short and domestic requirements made heavy demands on them.

The 1960 deficit of \$635 million in the trade account of the balance of payments was more than offset by net receipts from invisibles (mainly net receipts from tourism, which accounted for 85 per cent. of the import surplus) and donations, together amounting to \$985 million. Whereas, however, in 1959 the current account showed a surplus of \$755 million, this was reduced to \$350 million in the following year.

With regard to long-term capital movements, foreign investment in Italy — mainly direct investment and the purchase of shares of Italian companies — rose by \$323 million. On the other hand, Italian investment abroad amounted to \$114 million. As smaller items more or less cancelled one another out, there remained a net inflow of \$212 million, against one of only \$7 million in 1959, when foreign investment in Italy was almost entirely offset by the Italian subscription to the I.M.F. At the end of 1960 foreign investment in Italy amounted to \$1.7 milliard, of which \$700 million was owned by Swiss and \$455 million by U.S. residents.

\* \* \*

Apart from short-term capital movements, two of the main factors shaping the balances of payments of O.E.E.C. countries in 1960 were the sharp increase in imports and the levelling-off of exports. After a lull in the middle of the year most countries' exports started to rise again in the last quarter, and this movement continued into the first quarter of 1961. In a number of countries imports fell somewhat during the latter period, but for the group as a whole a clear-cut trend is not yet discernible.

## V. GOLD, RESERVES AND FOREIGN EXCHANGE.

As a result of the balance-of-payments developments described in the preceding chapter the net monetary reserves of western European countries were by the end of the first quarter of 1961 more than \$5 milliard above their end-of-1959 level and exceeded \$25 milliard. During the same fifteen months the U.S. gold stock declined by a further \$2.1 milliard to \$17.4 milliard and the short-term dollar assets of foreigners (excluding international institutions) rose by \$1 milliard to \$17.2 milliard. On the exchange markets the dollar continued to be persistently weak against a number of European currencies, while on the free gold markets a big increase in private demand for gold during the latter half of 1960 sent quotations up as high as \$40 per fine ounce in October 1960 and it was not until February 1961 that they came into line with the U.S. official selling price for gold again. One result of the latter episode was that less gold than usual was added to official stocks. During the year fresh gold supplies worth \$1.4 milliard became available from new production and from sales by the U.S.S.R. in western countries, but official gold stocks rose by only \$340 million.

Perhaps the salient feature of the period under review was the realisation that the process whereby countries other than the United States have been adding to their international liquidity by gold purchases from the U.S. reserve and by running up their short-term dollar balances has during the past three years been taking place at a rate, and during 1960 under conditions, which clearly called for some policy adjustments on both sides of the Atlantic. While the United States has taken certain measures to improve its external position, the almost simultaneous revaluations of the Deutsche Mark and the Dutch florin by 5 per cent. in the first week of March 1961 were a clear acknowledgement that balance-of-payments surpluses too, if they are large and persistent enough, cause problems of their own.

In February 1961 nine European countries — those of the Common Market plus Ireland, Sweden and the United Kingdom — accepted the obligations of Article VIII of the International Monetary Fund Agreement. This decision formalised and made subject to definite international obligations the current-account convertibility of these currencies.

Elsewhere — in Turkey, Yugoslavia, the U.S.S.R. and a number of Latin American countries — there were changes in exchange rates, accompanied in some cases by abolition or reduction of multiple exchange rates.

### **Gold production and markets.**

*Gold production.* World gold production, excluding that of the U.S.S.R., is estimated to have amounted in 1960 to 33.6 million ounces, the value of

which at \$35 per fine ounce was \$1,175 million. The upward overall trend in output was thus maintained for the seventh successive year. Last year's increase in production was 1.5 million ounces and, as usual, the extra output came overwhelmingly from South Africa. Equally, the fact that the rise was smaller than in the previous year reflected a slowing-down in the rate of expansion in the South African gold-mining industry, whose production went up by 1.3 million ounces, compared with 2.4 million ounces in 1959.

World gold production.

Countries	1929	1940	1946	1950	1958	1959	1960
	weight, in thousands of fine ounces						
Union of South Africa . . .	10,412	14,046	11,927	11,664	17,656	20,065	21,386
Canada . . . . .	1,928	5,333	2,849	4,441	4,571	4,483	4,802
United States . . . . .	2,045	4,799	1,625	2,375	1,801	1,389	1,386
Australia . . . . .	427	1,644	824	870	1,104	1,065	1,093
Ghana . . . . .	208	888	586	689	853	913	893
Southern Rhodesia . . . . .	561	826	545	511	555	567	563
Colombia . . . . .	137	632	437	379	372	398	434
Philippines . . . . .	163	1,121	1	334	423	403	408
Japan . . . . .	335	867	40	156	308	328	331
Congo Republic <sup>1</sup> . . . . .	158	562	332	339	356	338	300*
Mexico . . . . .	855	883	421	408	332	314	299
Total listed . . . . .	17,029	31,599	19,587	22,166	28,331	30,283	31,685
Other countries <sup>2</sup> . . . . .	1,471	5,401	2,113	2,534	1,669	1,817	1,915
Estimated world total <sup>3</sup> . .	18,500	37,000	21,700	24,700	30,000	32,100	33,600*
Value of estimated world total at \$35 per fine ounce . . . .	in millions of U.S. dollars						
	850 <sup>3</sup>	1,295	760	865	1,050	1,125	1,175

<sup>1</sup> Formerly the Belgian Congo. <sup>2</sup> Excluding the U.S.S.R. <sup>3</sup> At the official price of \$20.67 per fine ounce then in effect, \$382 million.  
\* Estimated or provisional figure.

The increase in South African output during 1960 was smaller because neither the amount of ore milled nor the native labour force increased by anything like as much as in 1959. Ore milled, at 71.3 million tons, was little above the total for 1959, whereas it had gone up from 65.5 to 70.5 million tons between 1958 and 1959. The average native labour force at work in the Union's mines, which had risen by 40,000 in 1959 to 380,000, showed only a slight further expansion to 388,000. The average yield of gold from each ton of ore milled rose again in 1960, by 6 per cent., from \$9.79 to \$10.38. With average costs only 2½ per cent. higher than in the previous year, average working profits were up by 12½ per cent., from \$3.44 to \$3.87 per ton of ore milled. The industry's total profits from gold are estimated to have risen by about 14 per cent., from \$241 to 274 million. At this level profits are not far short of three times the figure of \$98 million recorded in 1953, the year when the Orange Free State mines began to contribute on any scale to the industry's output. This has been achieved with a rise in production of slightly under 80 per cent., from 11.9 to 21.4 million ounces.

Estimated sources and uses of gold.

Items	1956	1957	1958	1959	1960
	in millions of U.S. dollars				
Gold production <sup>1</sup> . . . . .	975	1,015	1,050	1,125	1,175
Sales by the U.S.S.R. . . . .	150	260	220	250	200
Total . . . . .	1,125	1,275	1,270	1,375	1,375
Increase in official gold stocks <sup>2</sup>	495	705	670	695	340
Other uses <sup>3</sup> . . . . .	630	570	600	680	1,035

<sup>1</sup> Excluding the U.S.S.R.    <sup>2</sup> Excluding the U.S.S.R., other eastern European countries and mainland China.  
<sup>3</sup> Residual figure.

Valued at the official dollar parity, total fresh gold supplies in 1960 are estimated to have been worth \$1,375 million, about the same as in 1959. The unusual strength of private demand for gold during the second half of the year, however, reduced the proportion of new gold which was added to official stocks from 50 per cent. in 1959 to just under 25 per cent. last year. During the last quarter of 1960 total official gold reserves were reduced by an estimated amount of \$165 million. This sum, together with the greater part of the quarter's output, went into private hoards. Altogether some \$1 milliard of gold was bought for industrial use and for private hoarding in 1960. The loss from official gold stocks during the last quarter of 1960 fell on the gold stock of the United States, net sales from which in these three months totalled \$912 million, while elsewhere official gold holdings rose by \$756 million.

*The gold market.* At the end of March 1961 the London gold price was about \$35.09 per fine ounce; a year previously it had been rather higher, at \$35.11. During the period between these two dates there occurred fluctuations in the price of an ounce not seen since the London market reopened in March 1954. The U.S. external deficit, but especially the gold losses from the middle of the year onwards, and the measures taken in Europe to deal with the corresponding surpluses combined with political events in the Congo and the Middle East to stimulate private demand for gold. To these factors was added uncertainty about future U.S. economic developments and policies, which grew as the Presidential election campaign proceeded, until in mid-October private demand for gold was further augmented by orders from U.S. residents. Prices on the London gold market then rose dramatically, as much as \$40 per fine ounce being quoted at one point.

After the original burst of private buying the price trend was almost continuously downwards, but quotations continued to show a premium of more than 1 per cent. on the dollar gold parity until the beginning of February 1961, with much wider dealing margins than in the past, and market supplies of gold were given over entirely to satisfying private demand. Early in February 1961 the price was down to the level of \$35.25 from which it had risen so sharply, and towards the end of that month it went below the



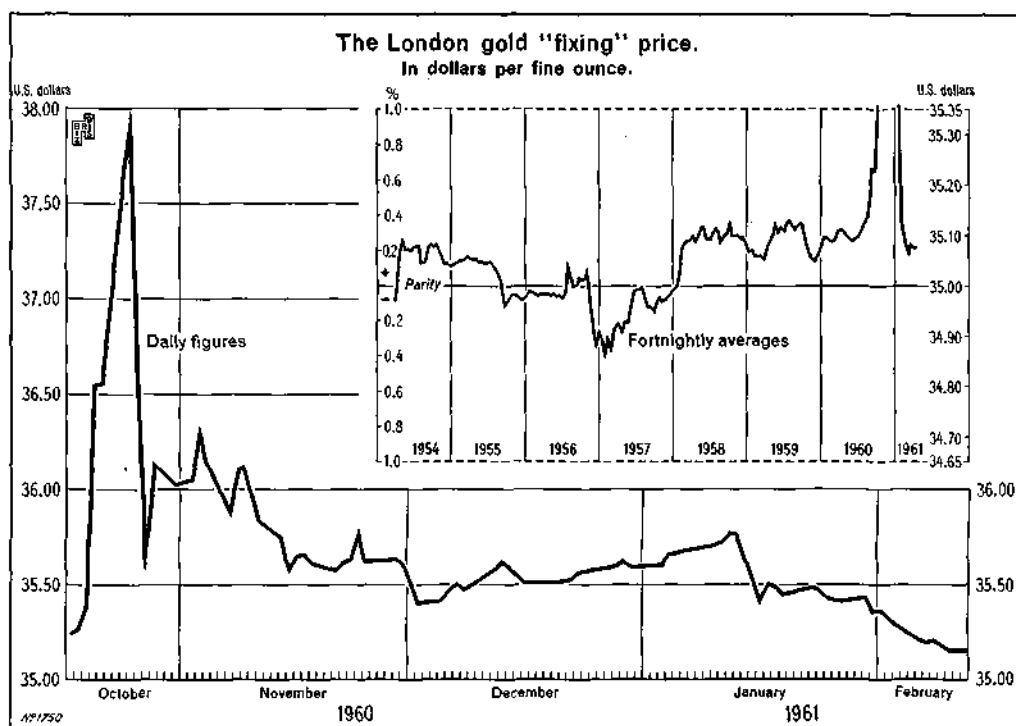
U.S. selling price of \$35.0875. Although quotations had by then returned to a normal level, it could not be said that the status quo ante had in all respects been restored. The demonstration given that the gold price in London could substantially and for months on end be divorced from the official U.S. selling price was an event the consequences of which cannot yet be fully assessed.

To return to the course of events in the gold market, the period under review may be divided into three phases. The first, and least eventful, of these lasted until towards the end of July 1960. During it the price of gold in London showed a slight downward trend, especially from May onwards. The "fixing" price, which had been a little above \$35.12 on 1st April, was down to \$35.0930 on 30th June and on 18th July it was a little lower still, at \$35.0892. Prices eased despite the fact that western European central banks added nearly \$600 million to their gold reserves in the second quarter of 1960, of which they bought only \$49 million from the United States. The reason for this was that supplies coming onto the market also increased during the second quarter of the year. In this connection it is of interest that imports of refined gold bullion into the United Kingdom, the average monthly value of which had been \$37 million (virtually all from South Africa) in the first four months of the year, were worth \$112 million in May and \$140 million in June. Arrivals from South Africa were much larger than in the previous months and in addition substantial shipments were received from the U.S.S.R., together with smaller amounts from Australia and Canada.

In June the gap between U.S. and European interest rates widened and the easterly flow of funds across the Atlantic increased, but it was not until towards the end of July that the second phase of the year under review started. Then, from just under \$35.09 on 18th July the fixing price rose by 1st August to \$35.14. A short-lived decline to around \$35.12 followed, after which, beginning on 18th August, the fixing price was raised almost every day for nearly four weeks until on 13th September it reached \$35.24, almost 10 cents above the previous peak in May 1959 and several cents above the price at which it would have paid to buy gold in New York, ship it to London and resell it there. From then until mid-October quotations varied between \$35.20 and \$35.25.

During this second phase pressure was more or less constantly being built up. On the one hand, official purchases in the market were less than in the second quarter. Net acquisitions of gold outside America by western European central banks amounted to about \$200 million, compared with over \$500 million in the second quarter. Moreover, between the end of June and the end of December 1960 South Africa sold \$62 million of gold from its monetary reserves. In assessing the effects on the market of official transactions in gold at this time, however, two points need to be remembered. Russian gold sales tapered off during the quarter and in addition some central-bank purchases were still taking place in London as late as September 1960, when the market

was already well above its previous highest levels and therefore in a sensitive condition. On the other hand, private demand certainly increased during the third quarter. Two reasons for this were the outbreak of troubles in the Congo and the assassination of the Jordanian prime minister. More important, however, was the increase in the outflow of funds from the United States and the rate at which, despite the improvement in its current balance-of-payments situation, the U.S. gold stock began to decline after the middle of the year. The movement out of the dollar accelerated and, with first the German and then in mid-August the Swiss measures against the inflow of foreign currency into their countries, part of the funds in question, and perhaps some others too, were placed in gold.



The third phase opened on Tuesday, 18th October. The main graph shows the daily fixing prices from then until mid-February, while the inset graph shows the course of the fixing price since the market reopened in March 1954. On 18th October 1960 the fixing price was almost \$35.27, but market quotations later in the day rose to \$35.35, a premium of 1 per cent. on the dollar parity. The next day the fixing price was raised by 11 cents and market quotations went up to \$35.65. Then on 20th October, with the fixing price set as high as \$36.55, prices broke loose and, with U.S. private buyers entering the market, as much as \$40 per ounce was quoted for gold at one point. That was the peak of the rise, and after four days on which prices paid varied between \$36 and \$39 the fixing price was down to \$35.71 on 27th October and the market range of quotations for the day was \$35.50-36.25. Following the U.S. elections on 8th November quotations declined further and

by 2nd December the fixing price was \$35.41. At the end of the year and early in January prices rose again until on 12th January the fixing price was \$35.78. On 14th January 1961 the U.S. Treasury announced that persons subject to the jurisdiction of the United States would no longer be allowed to hold gold outside the United States and that all existing holdings were to be disposed of by 1st June 1961. On 16th January the fixing price for gold in London fell sharply to \$35.43 and, although this provoked an upward reaction of prices for a few days, subsequently the trend was strongly downward again. By mid-February quotations were down to \$35.15 and towards the end of the month the London fixing price was a fraction under the official U.S. selling price of \$35.0875. In March substantial Russian sales began again and by 10th May the fixing price was down to \$35.06.

Just as it was conversion of privately-owned dollars that sent the gold price up so sharply on 20th October, so, according to the March 1961 Quarterly Bulletin of the Bank of England, "it was normal market influences (perhaps not unaffected by an awareness that conversations were then taking place in Washington) which were primarily responsible for bringing the price down to around \$36 per fine ounce by the end of October". An important factor in keeping the fixing price from subsequently going much above that level, however, was what Sir George Bolton, in the 1960 annual report of the Bank of London and South America, has called "the 'bridge' provided by the United States authorities through the Bank of England". British purchases of gold from the United States totalled \$350 million in the last quarter, whereas it may be estimated that the U.K. gold reserves rose during that period by some \$125 million. These "bridging" operations enabled the London gold price to be maintained in November, December and early January at levels much lower than those reached in late October 1960, until holders of gold were obliged, at least in part, to reverse their previous operations. In addition, the ending of the election period in the United States and the generally vigorous first reactions of the new Administration in the economic field helped to change sentiment. It remains now for the various countries whose policies in combination are decisive for the trend of events in the gold markets to allay by their future actions the uncertainties which are the inevitable aftermath of what happened last year. In this connection it should be mentioned that, following the events of October 1960, an agreement was reached between a number of European central banks to refrain from buying gold in the market when prices are at or above the gold import point from New York.

#### **Gold and exchange holdings.**

*Gold reserves and dollar balances.* During 1960, as in the previous year, the principal changes in the distribution of international liquidity holdings resulted from an overall deficit in the United States and corresponding surpluses in the rest of the world taken as a whole, especially western Europe and Japan. While the U.S. overall deficit of \$3.8 milliard was of the same

size as in 1959, its composition was very different. A growing current-account surplus was accompanied by greatly increased outflows of capital, caused by interest-rate differentials between the United States and Europe as well as by expectations of changes in exchange parities. This in turn affected the changes that took place in other countries' gold reserves and short-term dollar holdings. Whereas in 1959 their dollar holdings (and, in particular, privately-owned ones) had gone up by more than their gold reserves, in 1960 the rise in gold reserves and short-term dollar balances was, taken overall, entirely a rise in official balances, with gold reserves accounting for the major part of the increase.

**World gold and short-term dollar holdings.<sup>1</sup>**

Areas and countries	End of 1959			End of 1960			Change in 1959	Change in 1960
	Gold	Dollars	Total	Gold	Dollars	Total		
in millions of U.S. dollars								
<b>Western Europe</b>								
Austria . . . . .	292	331	623	293	243	536	+ 18	- 87
Belgium . . . . .	1,134	138	1,272	1,170	147	1,317	- 113	+ 45
Denmark . . . . .	31	137	168	31	54	85	- 32	- 83
Finland . . . . .	36	77	115	41	46	87	+ 11	- 28
France . . . . .	1,290	655	1,945	1,641	519	2,160	+ 663	+ 215
Germany . . . . .	2,637	1,987	4,624	2,971	3,476	6,447	+ 230	+1,823
Greece . . . . .	26	186	212	76	63	139	+ 69	- 73
Italy . . . . .	1,749	1,369	3,118	2,203	877	3,080	+ 911	- 36
Netherlands . . . . .	1,132	485	1,617	1,451	329	1,779	+ 228	+ 162
Norway . . . . .	30	95	125	30	81	111	- 48	- 14
Portugal . . . . .	548	138	686	552	84	636	+ 30	- 50
Spain . . . . .	68	86	154	178	149	327	+ 61	+ 173
Sweden . . . . .	191	213	404	170	227	397	- 103	- 7
Switzerland . . . . .	1,934	969	2,903	2,185	678	2,863	+ 126	- 40
Turkey . . . . .	133	31	164	134	18	152	± 0	- 12
United Kingdom . . . . .	2,500	990	3,490	2,800	1,667	4,467	- 233	+ 977
Others <sup>2</sup> . . . . .	3	590	593	136	388	524	- 277	- 69
<b>Total western Europe . .</b>	<b>13,736</b>	<b>8,477</b>	<b>22,213</b>	<b>16,062</b>	<b>9,045</b>	<b>25,107</b>	<b>+1,541</b>	<b>+2,894</b>
Canada . . . . .	960	2,198	3,158	885	2,439	3,324	+ 61	+ 166
Latin America . . . . .	1,503	2,406	3,909	1,208	2,422	3,630	- 108	- 279
<i>of which Venezuela . . . .</i>	<i>652</i>	<i>277</i>	<i>929</i>	<i>398</i>	<i>398</i>	<i>796</i>	<i>- 284</i>	<i>- 133</i>
Asia . . . . .	1,175	2,774	3,949	1,238	3,107	4,345	+ 730	+ 396
<i>of which Japan . . . . .</i>	<i>279</i>	<i>1,285</i>	<i>1,564</i>	<i>279</i>	<i>1,897</i>	<i>2,166</i>	<i>+ 470</i>	<i>+ 602</i>
Other countries <sup>3</sup> . . . . .	895	373	1,268	887	352	1,239	+ 64	- 29
<b>All countries except the United States<sup>3</sup> . . . . .</b>	<b>18,269</b>	<b>16,228</b>	<b>34,497</b>	<b>20,280</b>	<b>17,365</b>	<b>37,645</b>	<b>+2,308</b>	<b>+3,148</b>
United States . . . . .	19,507	—	19,507	17,804	—	17,804	-1,075	-1,703
<b>All countries<sup>3</sup> . . . . .</b>	<b>37,776</b>	<b>16,228</b>	<b>54,004</b>	<b>38,084</b>	<b>17,365</b>	<b>55,449</b>	<b>+1,233</b>	<b>+1,445</b>
International institutions . . . . .	2,407	3,158	5,565	2,439	3,954	6,393	+2,689	+ 828
<b>Grand total<sup>3</sup> . . . . .</b>	<b>40,183</b>	<b>19,386</b>	<b>59,569</b>	<b>40,523</b>	<b>21,319</b>	<b>61,842</b>	<b>+3,922</b>	<b>+2,273</b>

<sup>1</sup> 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. <sup>2</sup> Includes Yugoslavia, Bank for International Settlements (including European Fund account), gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold and unpublished gold reserves of certain western European countries. <sup>3</sup> Excludes gold reserves of the U.S.S.R., other eastern European countries and mainland China.

Altogether, gold and short-term dollar assets of countries other than the United States increased last year by \$3,148 million. Western Europe's share in this was no less than \$2,894 million, or 92 per cent. Detailed consideration of changes in European monetary reserves will be found on page 138 et seqq. Canada's holdings went up by \$166 million and those of Japan by \$602 million; the latter rise owed a lot to the attractive rates of interest offered by Japanese banks to foreigners for dollar deposits. Elsewhere, in the countries in course of development, gold and short-term dollar balances fell by \$514 million, after having risen by \$236 million in 1959. This was despite the fact that, on balance, these countries drew \$91 million from the I.M.F. in 1960, after making net repayments of \$48 million the year before. The biggest losses were in Cuba, Venezuela and the outer sterling area, amounting to \$136, 133 and 148 million respectively.

Changes in gold reserves and short-term dollar balances  
outside the United States.

Areas and countries	1960				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
	in millions of U.S. dollars				
Western Europe . . . . .	152	990	1,082	670	2,894
Japan . . . . .	80	111	229	182	602
Other countries except the United States	97	- 115	- 61	- 269	- 348
International institutions . . . . .	188	79	298	263	828
Total . . . . .	517	1,065	1,548	846	3,976
Derived from					
U.S. gold sales to foreign countries and international institutions . . . . .	42	84	632	912	1,670
Changes in short-term foreign dollar assets (decrease -) . . . . .	294	761	786	92	1,933
of which:					
Foreign official . . . . .	- 141	589	509	211	1,168
Foreign private . . . . .	295	154	28	- 507	- 30
International institutions . . . . .	142	77	249	388	796
Net changes in gold stocks outside the United States other than through transactions with the United States .	181	220	130	- 158	373

The above table shows, on a quarterly basis, the main changes during 1960 in gold and short-term dollar balances of countries other than the United States and of international institutions. The first and second lines of the lower half of the table measure crudely the U.S. external deficit. As this increased in the second quarter of the year, European gold and short-term dollar holdings rose rapidly. Official dollar balances of foreign countries, which had been declining, began to go up substantially and the rise in private holdings of dollars to taper off. In the third quarter Europe's gold and dollars rose again substantially, as did also those of international institutions and of Japan. Purchases of gold by foreign countries from the U.S. reserve went up sharply and short-term dollar accumulation became almost entirely confined to official balances. Then in the last quarter came the

movement out of dollars into gold. Foreign dollar assets in private hands fell by \$507 million, mostly (\$319 million) in November 1960. If the \$300 million of gold bought by the United States from the I.M.F. in December 1960 were excluded from the table, the U.S. gold stock would show a decline of \$1,212 million and dollar assets of international institutions a rise of only \$88 million during the last quarter. The bottom line of the table shows the additions to or sales from gold reserves of countries other than the United States and of international institutions as a result of transactions other than those with the United States, i.e. normally it shows the additions to international gold reserves from new production and from sales of gold by the U.S.S.R. The fall of \$158 million in this figure during the last quarter reflects on the one hand the fact that some gold sold by the United States to foreign countries was resold by the latter to meet private demand for gold — this may be put at around \$225 million — and on the other hand the fact that, although from 18th October the market price of gold was abnormally high, small quantities of gold from new production were no doubt added to official stocks.

As already mentioned, official gold stocks rose by only \$340 million in 1960, to a total of \$40,523 million at the end of the year. At the same time there were very large changes in the gold reserves of individual countries. The U.S. gold stock declined by \$1,703 million; most of this occurred in the second half of the year, the loss being \$638 million in the third quarter and \$921 million in the fourth. As the U.S. Treasury purchased \$300 million of gold from the International Monetary Fund in December 1960, gross U.S. gold sales in the last three months of the year amounted to \$1,212 million, the largest quarterly figure ever recorded. The International Monetary Fund's holdings of gold bullion rose by \$32 million during 1960 to a total of \$2,439 million; since the dollars it acquires by selling gold to the U.S. Treasury are reconvertible into gold on request, its gold position actually improved by \$332 million during 1960. By the same token, the U.S. gold position really deteriorated by \$2,003 million. After the December 1960 transaction, the Fund's gold claims upon the U.S. Treasury totalled \$800 million and its total gold assets amounted to \$3,239 million.

Gold reserves of countries other than the United States went up by \$2,011 million during 1960. In western Europe alone they increased by \$2,326 million, from \$13,736 to 16,062 million. Despite this, the gold element in European monetary reserves declined during the year. The next table shows the division of monetary reserves between gold and foreign exchange in sixteen European countries, the most important ones being shown individually. The share of gold in these countries' reserves has been declining since mid-1958, when it was almost 71 per cent. This has been mainly due to the fact that Germany took only 15 per cent. of the \$2.2 milliard rise in its monetary reserves during 1960 in gold. Italy, on the other hand, increased the percentage of gold in its monetary reserves during 1960 from 59 to 72. France, too, and the Netherlands increased the proportion of gold in their reserves during 1960, though to a much lesser extent. In the

Western Europe:<sup>1</sup> Gold reserves as a percentage of total monetary reserves, 1958-60.

End of	France	Germany	Italy	Nether-lands	Switzer-land	United Kingdom <sup>2</sup>	Others	Total
1958	— <sup>3</sup>	51	52	78	94	93	60	69
1959	75	54	59	85	94	91	59	68
1960	79	42	72	88	94	97	57	65

<sup>1</sup> Includes all members of the O.E.E.C., except Iceland and Ireland, plus Finland. Positions in the E.P.U. and, subsequently, debts or credits arising out of the E.P.U. have been omitted. <sup>2</sup> Estimates. <sup>3</sup> At the end of 1958 France's gold reserve was \$750 million and its total monetary reserves were \$712 million.

countries jointly labelled as "Others" the proportion of gold in reserves declined a little in 1960, although at the end of the year Spain and Greece both converted some foreign exchange balances into gold.

Outside the United States and western Europe, other countries' gold reserves declined during 1960 by \$315 million, from \$4,533 to 4,218 million. Latin American holdings fell by \$295 million, with Venezuela losing \$254 million and Cuba \$49 million. Elsewhere a decline of \$75 million in Canada's gold stock was offset by a rise in Asiatic gold reserves. In particular, those of Indonesia, Iraq and Lebanon are known to have increased during the last quarter, when U.S. gold sales to Asia (excluding Japan) totalled \$67 million.

Short-term dollar balances of foreign countries and international institutions increased by a further \$1,933 million to a total of \$21,319 million at the end of 1960. Balances of international institutions went up by \$796 million, of which \$300 million was the counterpart of the U.S. purchase of gold from the International Monetary Fund, while most of the rest was due to the excess of dollar repayments to the Fund over new drawings in dollars. So far as balances held by foreign countries are concerned, official ones went up by \$1,168 million while privately-held ones, which had increased by \$1,126 million during 1959, declined by \$30 million. The increase in foreign countries' short-term dollar balances was almost offset by a rise of \$967 million in short-term U.S. claims on foreigners reported by banks in the United States, the total of which at the end of 1960 was \$3,590 million. As these claims are against private persons and institutions, they can be compared with the latter's short-term dollar assets, which amounted to \$7,046 million at the end of 1960. On this basis, the short-term position of private foreigners vis-à-vis the United States deteriorated from a net credit of \$4,453 million at the beginning of the year to one of \$3,456 million at the end; during the latter half of 1960 alone the change was \$1,305 million, as the short-term dollar assets of this group went down by \$479 million and their short-term liabilities to the United States rose by \$826 million.

The increasing use of the dollar as an international currency has played an important part in the development of international trade and payments since the war. The present size of foreign short-term dollar balances makes it essential, therefore, that New York should be as well equipped as possible

to function as an international financial centre, especially now that many private foreign holders of dollars are more or less free to use their balances as they like. In this connection the fact that rates of interest payable by U.S. commercial banks that belong to the Federal Deposit Insurance Corporation are subject to ceilings laid down in Regulation Q, issued by the Board of Governors of the Federal Reserve System under the provisions of the Federal Reserve Act, has attracted increasing attention. In order to make it more worth while for foreigners to deposit dollars in New York it would be of advantage if Regulation Q were to be administered more flexibly so that deposit rates in the United States could be better adapted to changing circumstances. It is to be hoped that the proposal submitted to Congress by the new U.S. Administration for separate and higher maximum interest rates payable on time and savings deposits of foreign governments and monetary authorities represents a first step in this direction.

Any adverse effect that Regulation Q may have had on the willingness of foreigners to hold dollars has been partly offset in recent years by the fact that an increasing proportion of foreign dollar balances has been placed on deposit with banks outside the United States, including foreign branches of U.S. banks, for use in what has come to be known as the Euro-dollar market. This has been the result, on the one hand, of the much greater freedom now allowed to European banks for holding and dealing in foreign currencies and, on the other hand, of the rather wide gap between the U.S. banks' maximum deposit rates, fixed by Regulation Q, and their minimum lending rates, which are the subject of interbank agreements. The existence of this gap has enabled banks outside the United States to attract both depositors, by paying them more, and borrowers, by charging them less, than the U.S. banks do. In that it has increased the attractiveness of the dollar as an international currency, the emergence of the Euro-dollar market must be considered a positive development. On the other hand, it has meant that the management of these funds has passed out of American hands, except to the extent that they are deposited with foreign branches of U.S. banks. In addition, if in the countries where the dollars are deposited the monetary authorities are trying to pursue a policy of credit restraint, in so far as the banks use these funds for expanding loans to domestic customers the effect will be to frustrate their efforts.

*European monetary reserves.* At the end of 1960 the combined net monetary reserves of the European countries shown in the next table amounted to \$24,439 million. The increase during the year was no less than \$4,430 million, not far short of three times that of \$1,574 million recorded in 1959. These countries' gold reserves rose by \$2.2 milliard; their official sterling holdings increased by \$0.4 milliard and the remaining \$1.8 milliard of additions made to their reserves was presumably almost all in U.S. dollars. The difference between the rise in these countries' reserves in 1959 and that in 1960 corresponds closely to the increase between the two years in their receipts of short-term capital, including unidentified items.



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 . . . . .	1958	655	13	668	63	718
	1959	676	19	695	94	770
	1960	688	19	707	94	782
Belgium-Luxemburg . . .	1958	1,326	57	1,383	292	1,618
	1959	1,205	85	1,290	432	1,637
	1960	1,404	85	1,489	434	1,838
Denmark . . . . .	1958	205	—	205	68	273
	1959	275	33	308	163	438
	1960	230	33	263	163	393
Finland . . . . .	1958	200	10	210	48	248
	1959	266	14	280	71	337
	1960	263	14	277	71	334
France . . . . .	1958	712	— 262	450	263	975
	1959	1,720	16	1,736	803	2,523
	1960	2,070	202	2,272	989	3,059
Germany . . . . .	1958	5,139	147	5,286	477	5,616
	1959	4,917	268	5,185	1,056	5,973
	1960	7,121	309	7,430	1,096	8,217
Greece . . . . .	1958	166	—	166	—	166
	1959	203	15	218	75	278
	1960	224	15	239	75	299
Italy . . . . .	1958	2,075	45	2,120	45	2,120
	1959	2,953	68	3,021	338	3,291
	1960	3,080	68	3,148	338	3,418
Netherlands . . . . .	1958	1,344	69	1,413	344	1,688
	1959	1,331	103	1,434	516	1,847
	1960	1,646	121	1,767	533	2,179
Norway . . . . .	1958	208	13	221	63	271
	1959	239	25	264	125	364
	1960	272	25	297	125	397
Portugal . . . . .	1958	776	—	776	—	776
	1959	808	—	808	—	808
	1960	794	—	794	—	794
Spain . . . . .	1958	22	10	32	10	32
	1959	217	— 40	177	60	277
	1960	590	— 28	562	123	713
Sweden . . . . .	1958	470	25	495	125	595
	1959	418	38	457	188	607
	1960	471	38	509	188	659
Switzerland . . . . .	1958	2,053	—	2,053	—	2,053
	1959	2,058	—	2,058	—	2,058
	1960	2,320	—	2,320	—	2,320
Turkey . . . . .	1958	15	— 28	— 13	15	30
	1959	— 14	— 14	— 28	72	58
	1960	35	— 11	24	75	110
United Kingdom . . . . .	1958	3,069	— 318	2,751	982	4,051
	1959	2,736	65	2,801	2,015	4,751
	1960	3,231	488	3,719	2,438	5,669

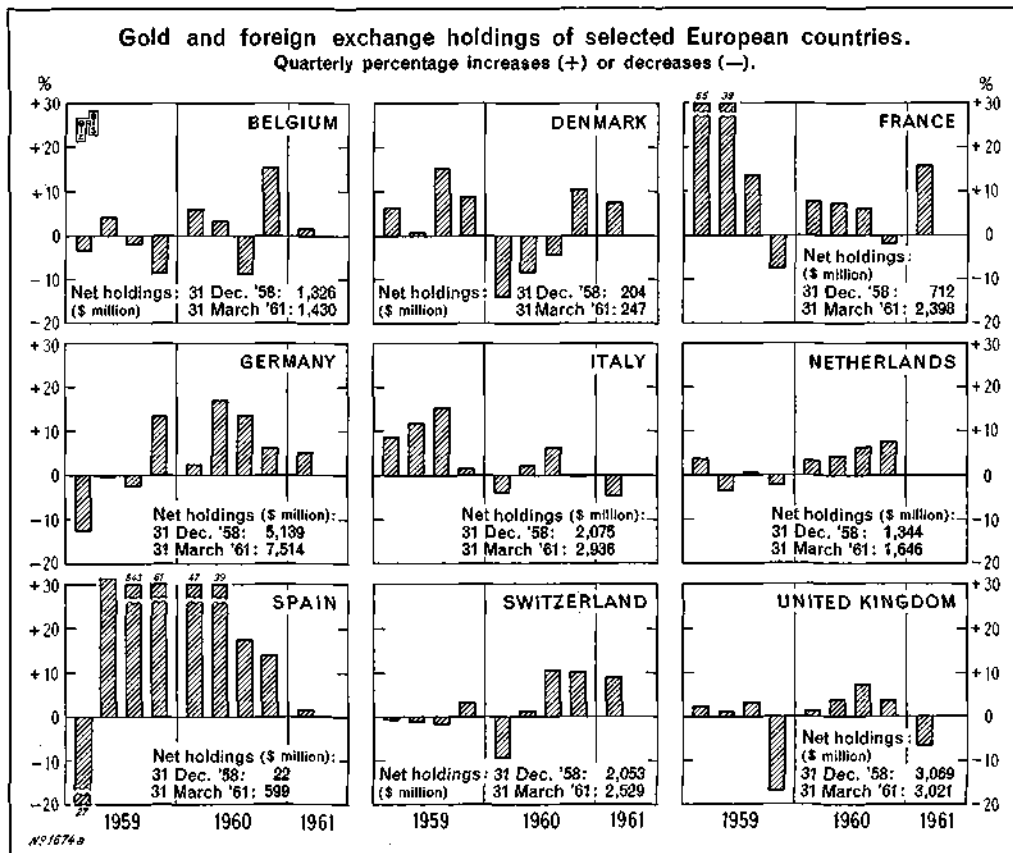
Note: 1. Net reserves consist of central-bank and/or other official holdings of gold and foreign exchange, excluding I.M.F. and E.P.U. positions and, for 1959 and 1960, claims or debts arising out of the liquidation of the E.P.U. The figures are also net of any other foreign exchange liabilities shown in the central-bank returns or other official sources, except, in the case of the United Kingdom, for overseas sterling liabilities. For France, Italy, 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.

Among the countries which added most to their reserves during 1960 two groups can be distinguished. The first consists of Germany, Switzerland, the United Kingdom and the Netherlands. The first three of these countries together received \$3.5 milliard in 1960 on short-term capital account, compared with only \$0.5 milliard in 1959. The Netherlands belongs in this group because, although it exported short-term capital to the extent of \$45 million in 1960, this was about \$200 million less than in the year before. By the middle of 1960 interest rates in Germany and the United Kingdom were well above those in the United States, while in the Netherlands and Switzerland they were much closer to U.S. rates than a few months earlier. In addition, money flowed to Germany in the expectation of a rise in the external value of the Deutsche Mark and to Switzerland as an escape from political uncertainties and from doubts about the dollar.

The second group consists of Belgium, France and Spain. The two latter can be classified together simply because what they gained was in each case the result of ordinary balance-of-payments surpluses and because neither of them was affected by the large movements of funds that were taking place. The increase in Belgium's reserves was the result of substantial foreign borrowing by the government.

Easily the largest increase in reserves during 1960 was in Germany, where the Bundesbank's holdings of gold and net foreign exchange rose by \$2,204 million, after having declined in 1959 by \$222 million. Apart from a decline in net official long-term exports of capital of \$317 million, nearly all the difference between the two years in the behaviour of reserves can be explained by three items in the private external capital account, all of which were affected either by the level of German interest rates or by speculation about the Deutsche Mark, or by both. First, the German commercial banks, which had increased their foreign assets by \$313 million in 1959, reduced them during 1960 by an amount of \$263 million, all of it in the first half of the year. Secondly, foreign purchases of German securities rose from \$112 million in 1959 to \$492 million in 1960. Nearly 90 per cent. of these purchases were made in the latter half of the year, when non-residents' access to the German money market was restricted. Thirdly, there was a big increase in German short-term indebtedness to foreigners. The banks alone, after having reduced their recourse to foreign credit by some \$60 million in 1959, ran it up again by \$220 million in 1960. Furthermore, it has been estimated that other private short-term foreign indebtedness (including the residual item in the balance of payments) increased by the best part of \$500 million in 1960, whereas the corresponding figure for the year before had shown an outflow of \$130 million. The reserves also benefited to the tune of \$278 million from repayments of claims arising out of the liquidation of the European Payments Union.

In Switzerland the current external surplus was smaller than in 1959 and the long-term capital outflow larger. These factors, together with the low level of Swiss interest rates, caused some decline in the monetary reserves during the first six and a half months of 1960. Then, between the middle of



July and the middle of August, the National Bank's external assets increased by \$175 million. Funds entered Switzerland during these few weeks at a rapid rate, partly Swiss money coming back from the United States as the signs of recession in that country became clearer and partly foreign money seeking refuge from political uncertainties, especially in Africa. After the conclusion of a gentleman's agreement on 18th August between the National Bank and the commercial banks, described on page 22, there was little further change in the level of the monetary reserves until late in October 1960. Then, simultaneously with the rise in the market price of gold, money flowed into Switzerland again, mainly Swiss funds whose owners feared a devaluation of the dollar, and in the space of two weeks a further \$70 million was added to the National Bank's gold and exchange reserves. Finally, during the last week of the year the reserves increased by a further \$90 million; as this was partly due to the banks' repatriating money in order to make up their end-of-year positions, about half of it went out of the country again in the first week of January 1961.

In the Netherlands the monetary reserves increased throughout 1960, the rises being larger in each successive quarter. Altogether \$315 million was added to the gold and net exchange holdings of the Nederlandsche Bank during 1960, compared with a small loss of \$13 million in 1959. Most of

the difference between these two figures is explained by changes that took place in the commercial banks' foreign positions from the second quarter of 1960 onwards. In 1959 the external operations of the banking system had produced a capital outflow of \$297 million; in 1960 the corresponding figure was \$64 million. The foreign currency assets of the banks had gone up by \$225 million during 1959 under the influence of rising U.S. short-term interest rates; in the first quarter of 1960 they went up by a further \$78 million, but subsequently, as the level of interest rates in the United States approached that of the Netherlands, these funds were repatriated with gradually increasing momentum until in the last quarter alone the banks' foreign currency holdings fell by \$117 million. For the year as a whole the drop was \$105 million and the turn-about in their foreign currency positions between the two years was \$330 million. This was partly offset by the rise in their florin loans to non-residents from \$72 to 169 million; in particular their longer-term lending in this form increased by \$70 million, \$39 million of which was to Belgium.

Although the monetary reserves increased by \$495 million, the United Kingdom's balance-of-payments experience in 1960 gave little cause for satisfaction. The current-account deficit, much larger than any since 1951, together with normal exports of long-term capital and substantial payments to the International Monetary Fund, left a deficit of some \$2 milliard to be covered in one way or another. That in these circumstances the reserves nevertheless went up by the amount indicated above was the result of other receipts totalling no less than \$2.5 milliard, a sum equal to almost 90 per cent. of the reserves at the end of 1959 and to nearly five times the amount by which they increased during 1960. Most of these receipts were due to the level of interest rates in London from June 1960 onwards. The principal items in the \$2.5 milliard inflow were unidentified receipts of \$1 milliard (some of which belong in the current external account) and additions of the same size to foreign countries' sterling balances.

The rise of £380 million in sterling balances held by foreign countries during 1960 was due, to the extent of £131 million, to money held temporarily in London by the Ford Motor Company of Detroit pending purchase of the minority outside interest in the British Ford Company. Even excluding this

**Sterling balances of foreign countries, 1951-60.**

Dates	Official balances		Non-official balances		Total
	Sterling area	Non-sterling area	Sterling area	Non-sterling area	
in millions of £ sterling					
1951 December . . . . .	2,252	659	333	333	3,577
1957 December . . . . .	2,126	383	482	282	3,273
1958 December . . . . .	1,993	399	526	435	3,353
1959 December . . . . .	2,165	325	639	478	3,507
1960 June . . . . .	2,154	387	520	553	3,614
1960 December . . . . .	2,031	499	449	777*	3,756*

\* Excluding temporary balances of £131 million held by the Ford Motor Company of Detroit.

item, however, sterling balances went up in 1960 by £249 million. The rise was entirely in balances held outside the sterling area, which increased from £803 to 1,276 million, a figure slightly higher than the previous peak of £1,248 million at the end of 1947. Non-official holdings of sterling outside the sterling area rose by £299 million, of which £111 million was added to North American holdings and £175 million to western European balances. In addition, sterling held by official institutions outside the sterling area went up by more than 50 per cent. from £325 to 499 million, most of this being accounted for by the addition of £137 million to western European official sterling balances, an increase which owed nothing to special transactions. Inside the sterling area both official and private balances declined, the much larger fall in the second half of the year being partly seasonal.

Altogether, in the period covered by the table the distribution of sterling balances has changed considerably. At the end of 1951 72 per cent. was held in the sterling area and this proportion increased to reach 80 per cent. in December 1957. In the following three years the sterling area's share in the total declined to 66 per cent. Parallel with this, the proportion of all countries' sterling balances in private hands went up from 23 to 33 per cent.

Some further light is thrown on the movement of funds into London last year by an examination of statistics published by the Bank of England and relating to the activities of foreign banks in London and of the London acceptance houses. In the first half of 1960 these institutions increased their deposits received from abroad by £240 million, while their advances to foreign customers rose by £218 million. In particular, U.S. banks in London increased their foreign deposits by £160 million and their advances to foreigners by about the same amount in the period January-June 1960; this marked their entry into the Euro-dollar market, from which they had previously been held back by applying to themselves the same disciplines as did their Head Offices, which are of course subject to the provisions of Regulation Q. During the latter half of 1960, foreign banks in London plus the acceptance houses increased their foreign deposits by £184 million and their advances to foreigners by only £81 million. These latter figures clearly reflect a net inflow of money to London, and it is significant that from the middle of the year onwards there was practically no further change in the foreign liabilities or assets of the U.S. banks in London.

Following the devaluation of the franc and the various other measures of economic redressment put into effect at the end of 1958, France increased its monetary reserves during 1959 by \$1 milliard, as well as repaying foreign debts to the tune of \$0.5 milliard. The same process continued in 1960, when reserves rose by \$350 million and external indebtedness was reduced by \$523 million. Of this latter sum, \$181 million was repaid to the I.M.F., \$183 million to the E.P.U. and the remainder to the U.S. and Canadian Governments, including the Export-Import Bank, and to the United Kingdom.

In Spain, too, the rise in the country's monetary reserves that began after the devaluation and economic stabilisation programme of August 1959

continued during the period under review. By the end of 1960 the Spanish monetary reserves amounted to \$590 million. In January 1961 Spain cancelled a credit line of \$71 million extended to it in August 1959 by a consortium of U.S. banks and also repaid \$24 million borrowed from the European Fund at the same time. In February 1961 Spain cancelled \$75 million of its outstanding \$100 million credit line with the European Fund and in March and April 1961 it completely repaid the \$50 million drawn on the International Monetary Fund in August 1959. In addition the stand-by arrangement for \$25 million concluded with the Fund in that same month was cancelled in March 1961.

From the table on page 139 it appears that the monetary reserves of Belgium increased by \$200 million during 1960. Within the year there were considerable fluctuations, a rise of \$123 million in the first six months being followed by a loss of \$163 million in July and August, owing to the Congo disturbances, and then by a further substantial increase of \$239 million in the last four months. Included in these figures, however, are large amounts of foreign exchange borrowed by the government during the course of the year and sold to the National Bank. Altogether the government obtained in this way \$344 million, of which \$131 million was represented at the end of the year by forward assets in gold and currencies not included in the reserves. If the difference of \$213 million between these two figures is counted as a charge on the reserves, then the latter show a decline of \$13 million over the course of 1960.

Elsewhere in Europe reserve changes were of lesser magnitude than in the seven countries already discussed. In Italy the rapid rise in the monetary reserves, which had carried them from about \$1 milliard at the end of 1956 to just on \$3 milliard at the end of 1959, was not continued. In mid-1960 the reserves were \$55 million lower than they had been at the end of 1959, and then in the latter half of the year they rose by \$182 million. Apart from the decline in the country's current external surplus, the principal reason why the Italian reserves went up so much less during 1960 was that the authorities sold \$335 million of foreign currencies to commercial banks to enable them to balance their foreign currency positions.

In recent years Italian banks have accepted foreign currency deposits from non-residents on a large scale, since they were able to relend these funds unhampered by the interbank agreement on minimum rates of interest for loans to customers in lire. By late in 1959 the foreign currency position of the Italian banking system (including their forward positions but excluding their holdings of foreign bank-notes) showed net liabilities of almost \$400 million. At this point the Italian authorities indicated to the banks that substantial amounts of foreign exchange from the monetary reserves were available to them in order to enable them to bring their positions nearer to equilibrium. Following this, the net foreign exchange liabilities of the Italian banks calculated on the basis mentioned above had been reduced by the end of June 1960 to about \$150 million. In August 1960 it was decided that the banks should be instructed to balance their foreign currency positions by the end of

the year, and in fact they did so by the end of November 1960. In his speech at the annual meeting of the International Monetary Fund in Washington on 28th September 1960 the Governor of the Bank of Italy, Dr. Carli, explained this policy by saying that "in view of the problems which short-term flows of funds were creating for other countries, and even for ourselves by being superimposed on the expansion of liquidity due to the current foreign surplus, we have thought it appropriate to restore to the rest of the world the short-term funds flowing to us, though in a way that would not basically conflict with the development of international banking relations. We have accordingly instructed our banks to balance individually their foreign exchange positions with non-residents."

In Scandinavia the biggest change between 1959 and 1960, so far as monetary reserves are concerned, was in Denmark, where a rise of \$70 million was followed by a loss of \$45 million; the fall in the Danish external reserves was heaviest in the last quarter of 1959 and the first half of 1960, when imports were rising very fast. During the latter part of the year the National Bank's gold and exchange holdings rose by \$13 million, simultaneously with a decline in the foreign assets of the banking system from \$29 million to a negative figure of \$5 million. In Sweden, on the other hand, the Riksbank's reserves were \$52 million higher at the end of 1960 than they had been a year earlier. This was entirely the result of sales of exchange by the banks to the authorities for the purpose of strengthening their liquidity, as the combined foreign assets of the Riksbank and the banks in fact went down by \$31 million during the year.

By the end of the first quarter of 1961 the monetary reserves of western European countries had risen by a further \$600 million and had reached the \$25 milliard level. The most important developments during the quarter occurred in March, immediately following the revaluation of the Deutsche Mark and the Dutch florin, when there were large-scale movements of funds from London to the Continent. Official figures show that the British reserves declined in March by \$174 million and that those of France, Germany and Switzerland went up by \$163, 358 and 231 million respectively. These figures do not, of course, exactly reflect the capital movements that occurred, for a number of reasons. In the first place, reserve movements are the result of all of a country's external transactions. Secondly, it is likely that some dollars previously held with British commercial banks found their way during March 1961 into official reserves on the Continent. Thirdly, part of the reason why the British loss was much smaller than the combined gains of continental countries is that the U.K. reserve figures take no account of sterling liabilities to non-residents and, as it is known that bilateral arrangements were made at that time between the Bank of England and some continental European central banks, it is likely that some of the latter's reserve gains in March 1961 took the form of an increase in their sterling holdings. Total sterling balances, official and non-official, of O.E.E.C. countries rose by £48 million in the first quarter of 1961. During the same three months the U.S. gold stock declined by a further \$371 million, all of which occurred in January and February.

### International Monetary Fund.

I.M.F. transactions during 1960 resulted in a further decline in outstanding drawings by \$401 million to a total of \$867 million at the end of the year. New drawings in 1960 amounted to \$280 million, the largest being those of Argentina (70), the United Arab Republic (50, of which Egypt 35 and Syria 15), Brazil (48) and Iran (45). Total repayments were \$681 million, of which the United Kingdom accounted for \$355 million and France for \$181 million; in addition India repaid \$73 million of the \$200 million that it drew in 1957. For the first time in the Fund's history, drawings of currencies other than U.S. dollars, worth in all \$131 million, accounted for nearly half of total new drawings. It can be expected that use of the Fund's non-dollar resources will increase further, since on 15th February 1961 ten member countries — Belgium, France, Germany, Ireland, Italy, Luxemburg, the Netherlands, Peru, Sweden and the United Kingdom — decided, after consultation with the Fund, to accept the obligations of Article VIII of the Fund Agreement, which requires them to avoid restrictions on current external payments, multiple exchange rates and discriminatory currency practices. One result of this decision is that Fund drawings can now be repaid in the currencies of these countries. Altogether twenty-one members of the Fund are now subject to the provisions of Article VIII.

### Foreign exchanges.

*The German and Dutch revaluations.* In the foreign exchange field the outstanding events of the period under review were the 5 per cent. revaluations of the Deutsche Mark and the Dutch florin on 6th and 7th March 1961 respectively. For the Mark the new gold content is 0.222168 grammes and the new dollar rate DM 4, while for the florin they are 0.245489 grammes and Fl. 3.62 respectively.

Germany's large and persistent balance-of-payments surplus had been giving rise to problems on and off for a number of years and had already caused exchange speculation at various times. In 1960 these problems became acute when, in the second and third quarters of the year and in both cases for internal reasons, Germany was raising short-term interest rates while the United States was doing the opposite. The German authorities attempted to limit the international effects of these interest rate differentials by restricting non-residents' short-term investments in Germany and by offering special inducements to German banks not to repatriate their short-term foreign investments and to German importers not to finance their imports by borrowing abroad. These efforts met with very limited success, and when in November 1960 and again in January 1961 the official discount rate was lowered, despite the absence of any perceptible slackening in the level of demand which had caused it to be raised in June 1960, an admission was in effect made that in the circumstances a policy of higher interest rates could not be used. From this to the decision to revalue the Mark was not a great step.

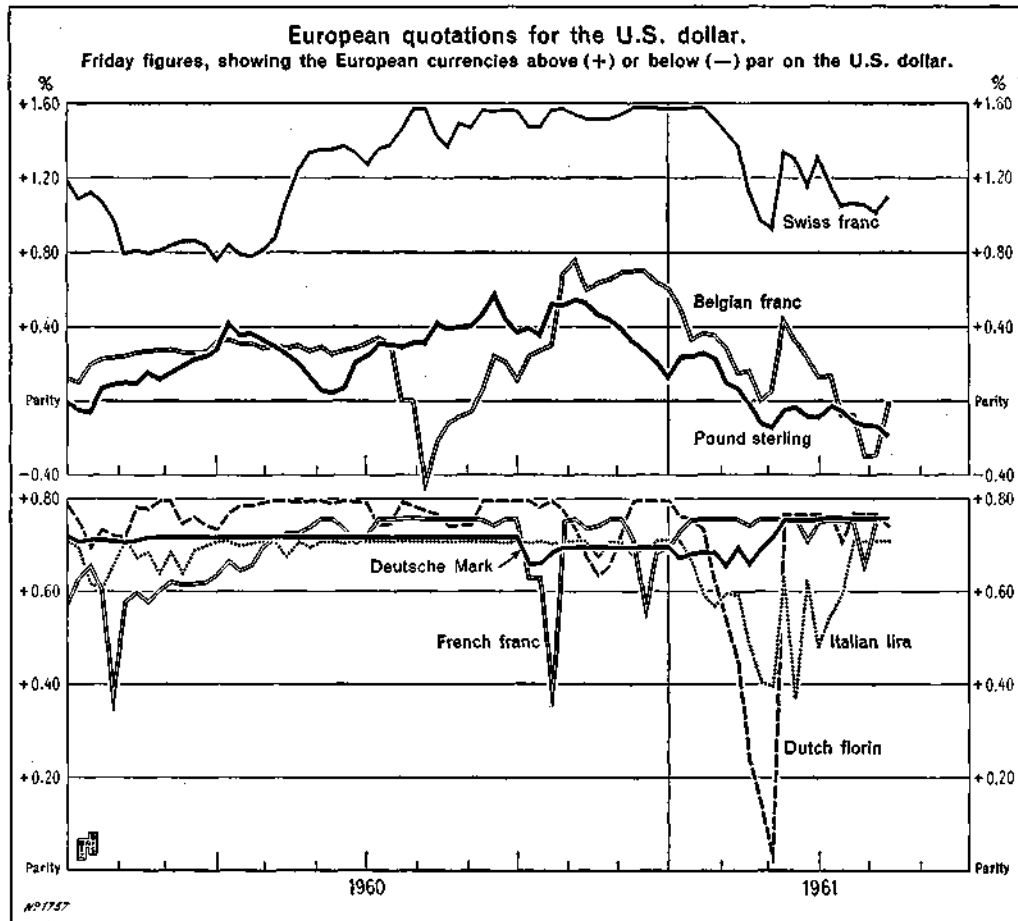


In the Dutch case two separate considerations may be said to have determined the decision. Firstly, the Dutch situation was similar to that of Germany, though less acute, in that the simultaneous attainment of internal and external equilibrium was becoming more and more difficult. Secondly, the resolution of the inner-outer dilemma would have been made much harder if the Netherlands had not followed the German example.

In both cases the changes in parities were accompanied by official statements emphasising the once-for-all nature of the actions taken. However, in view of the modest size of the adjustments made and of the fact that they came hard on the heels of a four-month period in which gold had been quoted at a sizable premium against the dollar, the first market reactions, not surprisingly, reflected a rather different view of events. In the second week of March Germany's monetary reserves rose by over \$200 million and those of Switzerland by almost \$250 million, in both cases a record for so short a period, while British reserves fell sharply. Conditions have since become less hectic and, although abnormal forward premiums of continental currencies against sterling persist, it is to be hoped that the new exchange rate pattern will in due course be consolidated. In both Germany and the Netherlands the revaluations were adopted to support measures of monetary policy in stabilising domestic conditions. In neither case were they primarily intended as, nor will they function as, a substitute for measures needed to be taken in those countries whose currencies have lately come under pressure.

*Exchange markets.* Western Europe's large external surplus during the period under review was reflected in the continued strength of most European currencies against the U.S. dollar. The course of spot dollar quotations for seven European currencies since January 1960 is shown in the graph on the next page. The currencies in question have been divided into two groups, partly for purposes of graphical presentation and partly in order to emphasise the fact that four of them — the Deutsche Mark, the florin, the lira and the French franc — have been consistently, or for long stretches during the period under review, at, or close to, their upper limits against the dollar. Spot dollar rates for the other three currencies fluctuated more widely during 1960, though in the case of the Swiss franc, which belongs with the other group in the sense of having been amongst the strongest currencies against the dollar, the fluctuations reflect partly the fact that it has more room to move, since its dollar margins are  $1\frac{3}{4}$  per cent. on either side of par whereas those of the other six currencies shown are only  $\frac{3}{4}$  per cent.

In the early months of 1960 the Deutsche Mark was the most consistently strong currency of those shown in the graph, being at its upper limit against the dollar the whole time. The lira appreciated to its upper limit against the dollar in mid-March, the florin in the second week of April and the French franc at the end of May. The Swiss franc, which during February, March and April had been quoted at around 0.80 per cent. above its dollar parity, rose sharply in May to a premium of almost 1.4 per cent. on the dollar. The pound, on the other hand, after having appreciated from about



Note: The lower part of the graph is drawn on a scale two and a half times that of the upper part.

\$2.80 after the Bank rate increase on 21st January to a little above \$2.81 in April, then weakened to just below par on the dollar on 2nd June. When Bank rate was put up a second time on 23rd June, sterling appreciated again and showed none of its usual seasonal weakness during the third quarter.

From the middle of the year until October six out of the seven currencies were very strong against the dollar, with the four included in the lower part of the graph more or less continuously at their upper limits, while the Swiss franc, following the influx of money into Switzerland in July and early August, was quoted at premiums of up to 1.6 per cent. The Belgian franc weakened rapidly in the third week of July as a result of events in the Congo and had gone to a discount on the dollar of 0.5 per cent. by 3rd August. Immediately after the rise in the official discount rate on the following day the Belgian franc began to recover and by the end of that month it was back at par with the dollar. During the last quarter of 1960 the main changes were the strengthening of the Belgian franc and the weakening of sterling. The former went to its upper limit on the dollar in early November and remained strong for the rest of the year, while the latter,

after being quoted at 0.6 per cent. above its dollar parity on 2nd November, eased as interest rates were reduced in London, finishing the year rather less than half a cent above par on the dollar.

The first weeks of 1961 saw a gradual strengthening of the dollar against all these European currencies, except the French franc, and at the end of February only that currency and the Deutsche Mark were at their upper limits against the dollar, the florin and the lira having fallen towards their dollar parities, especially the former. The Swiss franc too was weaker, while sterling had gone below \$2.80 on 16th February and the Belgian franc was just under its dollar parity. Then came the German and Dutch revaluations at the end of the first week of March. After two days of slightly lower quotations (though still well above par) the Deutsche Mark returned to its upper limit against the dollar, while the florin, after being quoted at 0.5 per cent. discount on the dollar on 7th March, was practically at its upper limit again three days later. The Swiss franc too strengthened while the pound, with the aid of massive use of the reserves, was maintained a little below \$2.80.

Mention may also be made of certain developments on the unofficial exchange markets. The weakness of the Belgian franc during the third quarter of 1960 was clearly reflected in quotations for the financial dollar. In mid-July it had been at a discount of only 0.3 per cent. on the official rate but by 2nd August the gap between the two had widened to over 6 per cent. After recovering by the second week of November to within 1 per cent. of the official rate, it weakened again and early in April 1961 the gap between the two was over 3 per cent. When sterling began to appreciate against the dollar in late June 1960, as a result of money moving to London on a large scale, security sterling became very firm. From near the end of August until mid-December (a month after external-account sterling had started to ease) there was no advantage for non-residents in using security sterling instead of external-account sterling to make portfolio investments in the United Kingdom, and on some days the former was more expensive to buy than the latter.

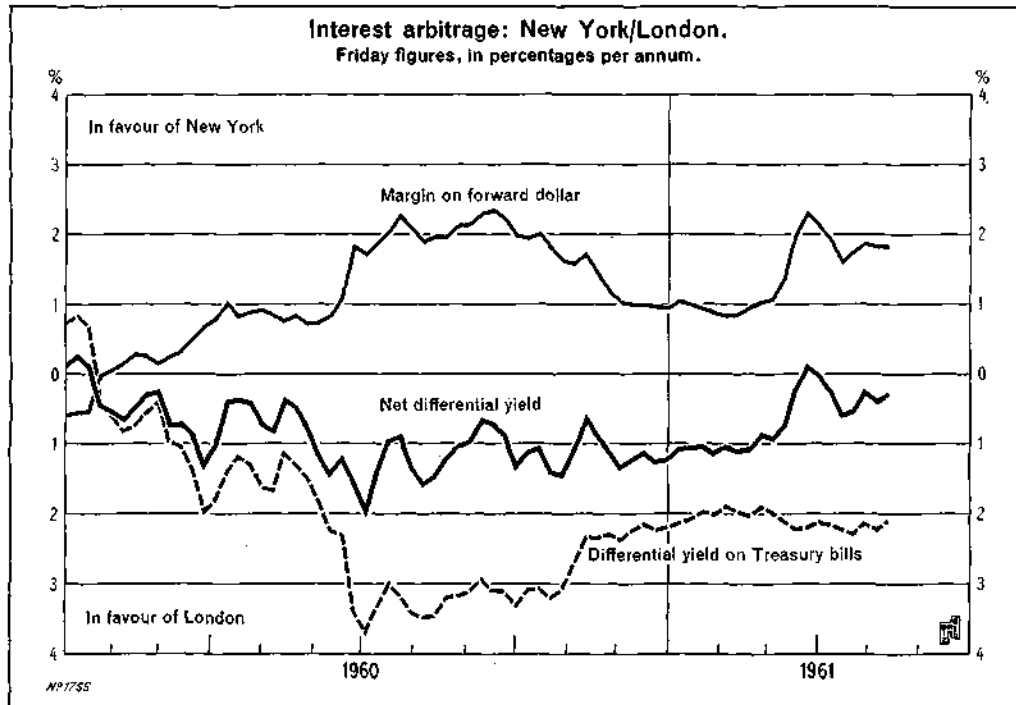
Since European currencies became convertible at the end of 1958, forward exchange rates have come closer than before to reflecting differences in short-term interest rates between different financial centres, provided always that no special influences were making themselves felt. That such influences were present in 1960 is shown by the fact that arbitrage did not always bring the forward quotations of some European currencies against the dollar at all into line with the relevant short-term interest rate differentials. Two examples of this are to be seen in the development of forward dollar rates in Germany and the United Kingdom.

In the first five months of 1960 the level of short-term interest rates in Germany and the United States was not very different, although the decline in U.S. Treasury bill rates by over  $\frac{1}{2}$  per cent. in March 1960 opened up a gap of about 0.75 per cent. in favour of Germany; during this period forward DM rates against the dollar were in no way abnormal, the forward

Mark being at a slight discount. Then in early June the gap widened to more than 2 per cent., as German Treasury bill rates rose to  $4\frac{7}{8}$  per cent. and U.S. Treasury bill rates fell below  $2\frac{1}{2}$  per cent. Normally such a development would have been accompanied by an increase in the discount of the forward Mark as a result of covered interest arbitrage. Instead, the opposite occurred and the Deutsche Mark went to a forward premium on the dollar. In part this may be attributed to the fact that normal covered interest arbitrage from the United States to Germany could no longer take place, since non-residents were prohibited from purchasing German money-market paper or from receiving interest on bank deposits in Germany after 3rd June. More important, however, was the fact that expectations of a revaluation of the Deutsche Mark began to grow at this time, stimulating the demand for Marks both spot and forward. Since then, except for very brief periods in late August and again in November 1960, the forward Deutsche Mark has been continuously at a premium on the U.S. dollar. By mid-May 1961 there was no longer any difference between U.S. and German short-term money rates; the coming together of the two levels, however, has been overshadowed by the further exchange rate uncertainties that have been evident since the revaluation of the Deutsche Mark, so that the premium of the forward Mark was still  $1\frac{1}{2}$  per cent. near the end of May 1961.

In addition to the unusual behaviour of forward dollar rates in the market since mid-1960, mention should also be made of the fact that the Bundesbank continued to offer special facilities for forward exchange transactions to the German commercial banks. On 24th August 1960 the Bundesbank offered them dollar swaps for periods of up to six months on terms equivalent to a premium of the forward dollar over the spot rate of 1 per cent. per annum. These special facilities were available for the banks' own short-term investments abroad, in order to try and lessen the temptation for them to repatriate such investments and use the money for lending at home. In addition, they were available for the financing of imports into Germany and of merchanting transactions, with the object of trying to prevent German importers and merchants from financing such transactions abroad. The 1 per cent. premium offered proved insufficient and was raised on 26th September to  $1\frac{1}{2}$  per cent. On 11th November 1960 the premium was restricted to foreign money-market transactions and subsequently, beginning on 20th January 1961, it was reduced in four steps to zero on 13th February.

Since the beginning of 1960 the relation between Treasury bill rates in London and New York has varied a great deal. Until June 1960 London rates were going higher and higher above New York, the difference between the two (shown in the bottom line of the graph) reaching its peak after Bank rate in London was put up to 6 per cent. By the end of the year reductions in U.K. rates had brought them back from  $3\frac{1}{2}$  to 2 per cent. above U.S. Treasury bill yields. Neither when the advantage in favour of London increased sharply in the second quarter nor when it was reduced in the last two months of the year were there offsetting movements of the same size in



the premium of the forward dollar (shown in the top line of the graph). No doubt in part this was because Treasury bills are not the only kinds of short-term investments available either in London or in New York and therefore the comparison made in the graph is an imperfect one. Three-month finance paper in the United States during most of 1960 yielded the best part of 1 per cent. more than did Treasury bills, while rates quoted in the Euro-dollar market are, of necessity, higher than most of those obtainable for comparable periods in New York. Nevertheless, the persistence for almost a year of a 1 per cent. interest differential on Treasury bills in favour of London for covered arbitrage (shown in the middle line of the graph) also suggests that a substantial part of the funds that came to London in 1960 may not have been covered forward. This might be put down to growing confidence on the part of investors, but in the circumstances of last year much of the increased confidence in European currencies was at the expense of confidence in the dollar. Following the German and Dutch revaluations, the premium of the forward dollar increased and the net interest advantage of London over New York, after vanishing altogether for a short period, re-established itself at about half the previous level.

At the end of September 1960 the Canadian dollar had been ten years without a fixed value in terms of gold or of other currencies. During this time it has been one of the most stable currencies in the world. Before the floating rate was introduced the official exchange rate had been Can. \$1 = U.S. \$0.909, par between the two currencies having been abandoned in September 1949, when Canada followed most countries in devaluing against the U.S. dollar. In the latter half of 1950 money began to flow into Canada

very rapidly from the United States and it was decided to let the rate float rather than to go back to a fixed parity against the U.S. dollar, on the grounds that the latter course "might not have been justified by fundamental considerations and might therefore be found to require reversal or further adjustment in the near future". In fact the Canadian dollar immediately appreciated to within 5 cents of the U.S. dollar and at the beginning of 1952 reached parity with its southern neighbour. Since the end of February 1952, except for a few days late in 1955, it has been above par on the U.S. dollar, the highest quotation being Can.\$1 = U.S.\$1.06156 on 20th August 1957. The range of fluctuations in 1960 was the widest of any year since 1952, from a high point of 105.3 U.S. cents on 1st March to 100.3 U.S. cents at the end of 1960. Early in 1961 the Canadian dollar appreciated a little and in mid-May 1961 it was quoted at 101.1 U.S. cents.

*Other exchange developments.* As well as the revaluations in Germany and the Netherlands, there were currency devaluations in a number of countries during the period under review.

On 20th August 1960 the par value of the Turkish pound declared to the International Monetary Fund was changed from T£2.8 to T£9 = U.S.\$1. The new gold content is 0.0987412 grammes. Since August 1959, except for exports of tobacco and opium, to which a rate of T£5.60 = U.S.\$1 had applied, all exchange transactions had in fact been carried out at the new par rate, so that the declaration to the Fund, although it completed the unification of exchange rates, was not much more than a consolidation of the existing state of affairs.

With effect from 1st January 1961 the exchange rate system in Yugoslavia was completely changed. Under the previous arrangements there had been a basic settlement rate for exchange transactions to which was applied a range of coefficients varying from 0.8 to 2.0 for export commodities and from 1.0 to 2.5 for import commodities. The settlement rate was Din. 632 for the U.S. dollar and its equivalent for other convertible currencies, while in the case of countries with which Yugoslavia had clearing agreements different settlement rates were fixed for each country, most of them being within 5 per cent. of the main settlement rate. In addition, there was a tourist rate of Din. 400 per dollar and a rate for emigrants' remittances and other gifts to Yugoslav citizens of Din. 600 per dollar, while the par value of Din. 300 per dollar declared to the International Monetary Fund on 1st January 1952 was used for certain governmental exchange transactions, such as servicing the foreign debt.

In place of this extremely complicated system there has now been put a uniform settlement rate of Din. 750 per dollar, and its equivalent in other currencies, which applies to all transactions, except receipts from tourists and from diplomatic and other foreign missions, for which a rate of Din. 600 per dollar has been in effect since 15th February 1961. The exchange reform is being accompanied by measures of trade liberalisation, the intention of the

whole programme being to link the Yugoslav economy more closely with the outside world.

Early in May 1960 it was reported that the Soviet Union was to put into effect a currency reform at the beginning of 1961 under which all existing currency would be exchanged for new money at the rate of ten old roubles for one new one. This change in values was also to apply to prices, wages, salaries and pensions. On 14th November 1960 it was announced that the external value of the rouble was to be changed on 1st January 1961, its gold content being raised from 0.222168 to 0.987412 grammes and the dollar rate being changed from 4 to 0.90 roubles per dollar. As these two measures came into force simultaneously at the beginning of 1961, their combined effect was to devalue the rouble by 55½ per cent. It appears that the devaluation was uniform against all currencies, including those of the eastern countries.

In Latin America there have been a number of changes in exchange rates during the period under review. On 14th March 1961 a new simplified exchange system was introduced in Brazil, with the approval of the International Monetary Fund, on the understanding that further steps will be taken at a later date towards unifying the country's exchange rate structure. The main feature of the new arrangements is to broaden the scope of the free exchange market, which is now used for all sales of export proceeds (except those from coffee and cocoa, to which special rates of Cruz. 90 and Cruz. 210 respectively apply) as well as for the purchase of exchange for nearly all those imports to which a system of exchange auctions had applied since October 1953. Export proceeds sold on the free market, in which quotations in mid-May 1961 were around Cruz. 265 to the dollar, are paid to the extent of Cruz. 80 per dollar in 120-day bills on the Bank of Brazil. Demand for exchange on the free market is limited by the fact that no firm may purchase currency for imports to the extent of more than \$50,000 per week. In addition, importers must purchase the cruzeiro equivalent of their foreign exchange purchases in Bank of Brazil 150-day bills and, if they buy exchange forward, they must also deposit the cruzeiro equivalent at the central bank. A category of preferential imports has been retained and the rate applied to them has been doubled from Cruz. 100 to Cruz. 200 per dollar. For the moment the par value for the cruzeiro declared to the International Monetary Fund on 14th July 1948 remains unchanged at Cruz. 18.5 = U.S.\$1 but no exchange transactions take place at this rate.

In Uruguay an initial par value of Pesos 7.40 = U.S.\$1 was agreed on with the International Monetary Fund and came into force on 7th October 1960. The gold content of the peso is 0.120091 grammes. At the same time Uruguay concluded a stand-by agreement with the Fund for an amount of \$30 million and its quota was raised from \$15 to 30 million. Uruguay also received a \$15 million stabilisation loan from the U.S. Treasury and a credit of \$30 million from a group of U.S. banks. The new par value does not yet apply to exchange transactions, all of which take place on a free market where the dollar was quoted at around Pesos 11 in May 1961. Effectively

there is a multiple exchange rate system, since surcharges ranging from 40 to 150 per cent. of the free rate are levied on a wide range of imports, while taxes are payable on the proceeds of certain major exports. Invisible and capital transactions are entirely free.

In Venezuela the continued fall in the country's monetary reserves led to exchange controls being introduced for the first time on 8th November 1960, as well as to some changes in the exchange rate system. A free exchange market was introduced, which operates side by side with the official market. At present the latter is used for essential imports, remittances to students overseas, registered commercial debt arrears and movements of registered capital. All other transactions take place on the free market, where rates in mid-May 1961 were Bs. 4.70 = U.S.\$1. The official exchange rates are Bs. 3.33-3.35 per dollar, while special buying rates of Bs. 3.05 and 3.09 per dollar apply to petroleum exports. Coffee and cocoa export proceeds may be sold on the free market or alternatively to the authorities at preferential rates, which vary with the world-market price situation for these commodities and guarantee domestic producers a certain minimum price for their output.

In Peru the exchange rate system was unified in May 1960 by amalgamating the two separate fluctuating rates of exchange. The certificate rate was abolished and all transactions now take place on a single free market. Under the certificate system all export proceeds in U.S. dollars and sterling had to be surrendered to the authorities in exchange for negotiable certificates which could be bought to pay for imports and for certain non-trade transactions. The certificate rate and the so-called draft rate of exchange were never very different from one another, since importers could use either market to obtain their foreign exchange requirements. In mid-May 1961 the free rate was Soles 26.85 = U.S.\$1.

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For much of the period under review developments in the field of gold and foreign exchange attracted greater attention than for many years past. Although conditions in the gold and exchange markets are at present quiet, voices have been raised in many quarters demanding that arrangements be made to avoid, or at any rate to neutralise, any repetition of the events of the last twelve months, in particular sudden large-scale capital movements out of reserve centres. In considering the lessons to be drawn from the experience of 1960 and early 1961 it is necessary to be clear about the reasons for what happened at that time.

Some of the capital movements that took place in 1960 did so for interest rate reasons. There was nothing abnormal or undesirable in this although, perhaps because of the novelty of international monetary freedom, it caused some surprise. No doubt when it is seen that over longer periods of time such movements take place in more than one direction they will attract less attention. Moreover, it should be remembered that if all the economies of western Europe and North America were to be synchronised as



regards business cycle developments, although differences in interest rate levels would be of lesser magnitude, cyclical movements might well be accentuated all over the world and the problems of coping with them, both for industrial and non-industrial countries, greatly aggravated.

As well as interest arbitrage, however, there undoubtedly occurred what may be described as a flight from the dollar, and more recently from the pound. These movements of funds were a clear sign of disequilibrium in the world economy and at the same time a warning that policy adjustments were needed. The current balance-of-payments position (excluding unilateral transfers) of the United States can hardly at present be described as unhealthy. On the other hand, the surplus earned in this way is not much bigger than total U.S. Government expenditure abroad, and an outflow of private capital from the United States therefore leads almost at once to an overall external deficit. The largest single counterpart to the U.S. deficit is the German surplus. Recent policy measures in that country show that the authorities do not regard the surplus as an unmitigated benefit and, although it cannot be expected that an increase of 5 per cent. in the external value of the currency will cause profound changes, it may be sufficient to allow more flexibility in domestic policies. If not, there is likely to be a repetition of last year's situation in which a restrictive policy is considered as necessary for internal purposes but is rendered ineffective by its external results, the latter being magnified by speculation about exchange rates. The outflow of funds from London in March 1961, although set off by exchange rate uncertainties following the German and Dutch revaluations, was a reminder that the present level of British reserves owes too much to earlier inflows of money and not enough to the external earnings of the economy.

In part, therefore, recent movements of capital were a normal response, given currency convertibility, to market conditions and, to the extent that they were not, measures to prevent them being repeated are to a large extent the responsibility of individual countries. Nevertheless, much recent discussion has focused on the usefulness of international measures in dealing with them. By their actions immediately after the German and Dutch revaluations, European central banks demonstrated their willingness and ability to cooperate in limiting the disturbances to which these events gave rise; and Herr Blessing, the President of the Deutsche Bundesbank, has described the steps taken at that time as "an encouraging sign for future monetary development". Furthermore, there exist other means of dealing with large movements of money, amongst them the resources of the International Monetary Fund. The question has recently arisen as to whether the Fund's holdings of some leading currencies other than the U.S. dollar are adequate to meet all possible calls upon them. As was pointed out by Mr. Per Jacobsson, Managing Director of the Fund, in an address to the Economic and Social Council of the United Nations in New York on 20th April 1961, "if the Fund's holdings of a particular currency are deemed inadequate, the Fund is empowered to replenish its holdings by borrowing such currency or by buying such currency for gold". While advising caution in the use of

the latter method, he said that "the time is now ripe to consider the first method of acquiring particular currencies, namely borrowing" and that "the most appropriate method seems to be the conclusion of a network of stand-by arrangements with the main industrial countries, under which the Fund will be able to use increased amounts of their currencies, whenever the need for such use would arise as part of a Fund operation".

While central-bank co-operation, reinforced if necessary by other action, provides a strong basis for meeting speculative attacks on currencies, it is as well to be clear as to the possible scope of such measures. They afford temporary relief of a situation but they do not cure it. They take the strain off the exchange markets at moments of disorderliness but they do not make weak currencies strong. They afford time for adaptations of policies but they are not a substitute for such adaptations. Recently it has been officially stated on all sides in Europe that no further changes in exchange rates are contemplated and that the events of March 1961 are final and definitive. Coming after a period of unrest, such statements will be judged by the determination of countries to face squarely their individual responsibilities as well as by their ability to concert with one another measures for ensuring that when unexpected strains occur they are not allowed to develop alarmingly for want of international co-operation.

Official currency values — Middle of May 1961.

Country	Currency	Grammes of fine gold	1 U.S. dollar	Remarks
<b>Europe</b>				
Albania . . . . .	Lek	.0177734	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	.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	.222168	4.—	IMF parity since 6th March 1961.
Greece . . . . .	Drachme	.0296224	30.—	IMF parity since 29th March 1961.
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 30th March 1960.
Luxemburg . . . . .	Franc	.0177734	50.—	IMF parity since 22nd Sept. 1949.
Netherlands . . . . .	Guilder	.245489	3.62	IMF parity since 7th March 1961.
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	.171783	5.17321	IMF parity since 5th Nov. 1951.
Switzerland . . . . .	Franc	.203226	4.37282	Official parity since 20th April 1953.
Turkey . . . . .	Lira	.0997412	9.—	IMF parity since 20th August 1960.
United Kingdom . . . . .	Pound	2.48828	.357143	IMF parity since 18th Sept. 1949.
Yugoslavia . . . . .	Dinar	.00296224	300.—	IMF parity since 1st January 1952.
U.S.S.R. . . . .	Rouble	.987412	0.90	Rate fixed on 1st January 1961.
<b>North America</b>				
Canada . . . . .	Dollar	—	.9880	Market rate in mid-May 1961.
Mexico . . . . .	Peso	.0710937	12.50	IMF parity since 19th April 1954.
United States . . . . .	Dollar	.886671	1.—	IMF parity since 18th Dec. 1946.
<b>Central America</b>				
Costa Rica . . . . .	Colón	.158267	5.615	IMF parity since 18th Dec. 1946.
Cuba . . . . .	Peso	.886671	1.—	IMF parity since 18th Dec. 1946.
Dominican Republic . . . . .	Peso	.886671	1.—	IMF parity since 23rd Apr. 1948.
El Salvador . . . . .	Colón	.355468	2.50	IMF parity since 18th Dec. 1946.
Guatemala . . . . .	Quetzal	.886671	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	.886671	1.—	IMF parity since 18th Dec. 1946.
<b>South America</b>				
Argentina . . . . .	Peso	—	82.95	Selling rate on 5th May 1961.
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 . . . . .	Sucre	.0592447	15.—	IMF parity since 1st Dec. 1950.
Paraguay . . . . .	Guarani	—	126.—	Selling rate on 17th May 1961.
Peru . . . . .	Sol	—	26.85	Selling rate on 9th May 1961.
Uruguay . . . . .	Peso	.120091	7.40	IMF parity since 7th October 1960.
Venezuela . . . . .	Bolívar	.265275	3.35	IMF parity since 18th April 1947.

Official currency values — Middle of May 1961.

Country	Currency	Grammes of fine gold	1 U.S. dollar	Remarks
<b>Africa</b>				
Cameroon . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Central African Republic . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Chad . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Congo (Brazzaville) . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Dahomey . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Egypt . . . . .	Pound	2.55187	.348242	IMF parity since 19th Sept. 1949.
Ethiopia . . . . .	Dollar	.357690	2.48447	IMF parity since 18th Dec. 1946.
French Somaliland . . . . .	Djib. franc	.00414507	214.392	Parity since 22nd March 1949.
Gabon . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Ghana . . . . .	Pound	2.48828	.357143	IMF parity since 5th Nov. 1958.
Guinea . . . . .	Franc	.003600	246.853	Official parity since 1st March 1960.
Ivory Coast . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Liberia . . . . .	Dollar	.866671	1.—	Official parity since 1st Jan. 1944.
Libya . . . . .	Pound	2.48828	.357143	IMF parity since 12th August 1959.
Madagascar . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Mali . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Mauritania . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Morocco . . . . .	Dirham	.175610	5.06049	IMF parity since 18th Oct. 1959.
Niger . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Nigeria . . . . .	Pound	—	.357143	Official rate since 1st July 1959.
Rhodesia and Nyasaland . . . . .	Pound	2.48828	.357143	IMF parity since 18th Sept. 1949.
Somalia . . . . .	Somalo	.124414	7.142860	Official parity since 18th May 1950.
Sudan . . . . .	Pound	2.55187	.348242	IMF parity since 23rd July 1958.
Togo . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
Tunisia . . . . .	Dinar	2.115880	.420	Official parity since 30th Dec. 1958.
Union of South Africa . . . . .	Rand	1.24414	.714286	IMF parity since 14th Feb. 1961.
Volta . . . . .	Franc	.003600	246.853	Official parity since 29th Dec. 1958.
<b>Asia</b>				
Afghanistan . . . . .	Afghani	—	20.—	Official basic rate since 1952.
Burma . . . . .	Kyat	.186621	4.7619	IMF parity since 7th August 1953.
Cambodia . . . . .	Riel	.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.—	Official rate since 25th Aug. 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.
Korea (South) . . . . .	Hwan	—	1,300.—	Official rate since 2nd Feb. 1961.
Laos . . . . .	Kip	—	80.—	Official rate since 6th Oct. 1958.
Lebanon . . . . .	Pound	.405512	2.19148	IMF parity since 29th July 1947.
Malaya . . . . .	Dollar	—	3.061	Official rate 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	—	40.—	Official rate since 1st June 1961.
Thailand . . . . .	Baht	.0444335	20.—	Official parity since 16th March 1955.
Vietnam (North) . . . . .	Dong	—	2.94	Calculated over parity with rouble.
Vietnam (South) . . . . .	Piastre	—	35.—	Official rate since 11th May 1953.
<b>Australasia</b>				
Australia . . . . .	Pound	1.99062	.446429	IMF parity since 18th Sept. 1949.
New Zealand . . . . .	Pound	—	.357143	Official rate since 18th Sept. 1949.

## VI. THE EUROPEAN MONETARY AGREEMENT.

The European Monetary Agreement came into force on 27th December 1958 under the auspices of the Organisation for European Economic Co-operation. The Agreement has two principal features: the European Fund and the Multilateral System of Settlements.

This chapter deals with amendments to the Agreement during the course of the past year, the operations carried out up to March 1961, and the management of the European Fund and the System of Settlements.

### 1. Changes in the Agreement.

The only change in the Agreement during the year concerned the Multilateral System of Settlements. Article 13 provided that member central banks could exchange their holdings of other members' currencies at pre-determined rates into dollars at the following monthly settlement. In July 1960 this provision was amended to ensure that funds benefiting from this guarantee as the result of a change of rate would no longer run the risk of being immobilised for a period of up to five weeks: special settlements will take place immediately after the modification by a member country of its buying or selling rate; such settlements will be limited to balances in the currency for which the buying or selling rate has changed. The Directives have been amended accordingly.

### 2. Operations under the Agreement.

#### *European Fund.*

A. GRANTING AND UTILISATION OF CREDITS. Iceland was granted a credit totalling \$12 million\* in February 1960. The first tranche of \$7 million was made available from 20th February 1960; \$5 million was drawn in March and \$2 million in June 1960. The second tranche of \$5 million was released with effect from 1st August 1960 when the Organisation had satisfied itself of the progress of the Icelandic stabilisation programme; no drawing had been made on this second tranche up to 31st March 1961.

One new credit has been granted from the European Fund in the past year under Article 7 of the Agreement. On 19th December 1960 the Council of the Organisation granted a credit of \$50 million to Turkey; this credit was provided in connection with the stabilisation programme drawn up by

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\* 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.

the Turkish Government and submitted to the O.E.E.C. The total credit was made available in three tranches, each for a period of two years: \$15 million from 1st January 1961, \$20 million from 15th February 1961 (the date on which an outstanding credit of \$21.5 million fell due for repayment) and the remaining \$15 million with effect from 1st July 1961 if the O.E.E.C. considers that satisfactory progress is being made towards achieving the aims of the Turkish programme. On 15th February 1961 Turkey drew \$22 million (all the first tranche and \$7 million of the second) and on the same date repaid \$21.5 million, the amount outstanding under the European Fund's first credit to Turkey.

On 27th January 1961 Spain repaid the \$24 million outstanding under the credit of \$100 million granted in August 1959. The first tranche of this credit, totalling \$75 million, was cancelled by Spain with effect from 16th February 1961; the second tranche of \$25 million remains available up to 14th February 1962 for further drawings if required.

All credits granted by the European Fund are drawn and are repayable in gold. A summary of the credits granted, showing interest rates and service charges, is contained in the following table.

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	
<b>Credits repaid or cancelled</b>				
Greece . . . . .	15.0	16th February 1959 to 16th December 1959	3.5	0.25
Turkey . . . . .	21.5	16th February 1959 to 15th February 1961	3.5	0.25
Spain . . . . .	75.0	1st August 1959 to 16th February 1961	3.75	0.25
<b>Credits available</b>				
Turkey . . . . .	15.0	1st January 1961 to 31st December 1962 15th February 1961 to 14th February 1963	3.75	0.25
Spain . . . . .	20.0			
Spain . . . . .	25.0	15th February 1960 to 14th February 1962	3.75	0.25
Iceland . . . . .	7.0	20th February 1960 to 19th February 1962 1st August 1960 to 31st July 1962	4	0.25
Iceland . . . . .	5.0			
<b>Credit granted and not yet available</b>				
Turkey . . . . .	15.0	—	3.75	0.25

Between June 1959, when the first drawing was made, and March 1961 there were twelve drawings totalling \$76.5 million on the various credits granted by the Fund; of this \$47.5 million had been repaid. The net amount drawn and outstanding after the operations for March 1961 was, therefore, \$29.0 million. A further \$43.0 million was available for drawing.

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										
February . . .	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
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										
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
June . . . . .	—	—	21.5	76.0	24.0	—	7.0	76.0	52.5	128.5
July . . . . .	—	—	21.5	76.0	24.0	5.0	7.0	81.0	52.5	133.5
December . . . . .	—	15.0	21.5	76.0	24.0	5.0	7.0	96.0	52.5	148.5
1961										
January . . . . .	—	15.0	21.5	100.0	—	5.0	7.0	120.0	28.5	148.5
February . . . . .	—	13.0	22.0	25.0	—	5.0	7.0	43.0	29.0	72.0
March . . . . .	—	13.0	22.0	25.0	—	5.0	7.0	43.0	29.0	72.0

B. 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.

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, 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 had been called up from member countries with non-deferred contributions by 7th March 1960. As no further amounts have been called up since that date, the position as at 31st March 1961 remains as it was described in the Thirtieth Annual Report of this Bank.

*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 two and a quarter years payments to or by the Fund totalled \$30.5 million.

Amounts brought into the settlements were made up almost entirely of balances under bilateral payments agreements between member countries. Of the seven agreements originally notified two have been terminated, that between Turkey and the Netherlands at the end of October 1959, and that between Denmark and Greece at the beginning of October 1960.

**E.M.A.: Payments made under the Multilateral System of Settlements,  
January 1959 to March 1961.**

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									
<b>Total payments to Dec. 1959</b>										
Payments by the Fund (+) . . .	+ 10,527	+ 10	-	-	+ 243	+ 1,400	+ 44	-	+ 2,350	14,574
or to the Fund (-) . . .	-	- 67	- 10,707	-	-	- 1,378	- 876	- 243	- 1,304	
<b>1960</b>										
January . . .	+ 825	+ 60	- 737	-	-	-	+ 35	-	- 183	920
February . . .	+ 815	+ 27	- 460	- 1	-	-	- 192	-	- 190	842
March . . .	+ 612	+ 9	- 765	-	-	-	+ 49	-	+ 95	765
April . . . .	+ 1,248	+ 28	- 513	-	-	-	- 120	-	- 643	1,276
May . . . . .	+ 560	- 13	- 692	-	-	-	+ 94	-	+ 53	706
June . . . . .	+ 627	- 50	- 640	-	-	-	- 57	-	+ 121	748
July . . . . .	+ 1,072	+ 74	- 1,268	-	-	-	- 183	-	+ 305	1,451
August . . . .	+ 717	+ 10	- 979	-	-	-	+ 165	-	+ 88	979
September . .	+ 284	- 20	- 569	-	-	-	- 132	-	+ 437	721
October . . .	+ 424	-	- 732	-	-	-	- 219	-	+ 527	951
November . .	+ 713	-	- 1,133	-	-	-	- 63	-	+ 473	1,186
December . .	+ 780	-	- 794	-	-	-	- 89	-	+ 104	883
<b>1961</b>										
January . . .	+ 1,588	-	- 1,220	-	-	-	+ 120	-	- 489	1,708
February . . .	+ 1,656	-	- 998	-	-	-	+ 46	-	- 704	1,702
March . . . .	+ 1,101	-	- 1,078	-	-	-	- 36	-	+ 13	1,113
<b>Total payments by the Fund (+) . . . or to the Fund (-) . . .</b>	<b>+ 23,548</b>	<b>+ 217</b>	<b>-</b>	<b>-</b>	<b>+ 243</b>	<b>+ 1,400</b>	<b>+ 554</b>	<b>-</b>	<b>+ 4,564</b>	<b>30,526</b>
<b>Net amount of settlements . . .</b>	<b>+ 23,548</b>	<b>+ 67</b>	<b>- 23,285</b>	<b>- 1</b>	<b>+ 243</b>	<b>+ 22</b>	<b>- 1,403</b>	<b>- 243</b>	<b>+ 1,051</b>	<b>-</b>

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: a balance of Swedish kronor notified by Italy in November 1959 and a balance of Icelandic kronur notified by Norway in February 1960.

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 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.

Since the two modifications mentioned in the previous paragraph, there have been three further changes in exchange rates. In August 1960 Turkey modified its selling rate and in March 1961 Germany and the Netherlands both revalued their currencies. None of these changes in the past year resulted in any balances being reported for special settlement.

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

The Management of the European 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, which meets approximately once a month, is concerned with the operations and investments of the Fund and the working of the System of Settlements, upon which the Agent makes monthly reports. The Board 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.

The operations of the Fund as described on the previous pages are reflected in the summary of the Statement of Account, as shown in the table on the following page. 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 a high point of \$87.5 million in June 1960 as a consequence of the various drawings made on the credits granted. After the repayment by Spain in January 1961 the total fell to \$63.5 million.

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 due partly to the capital contribution obligated by Spain, which country acceded to the Agreement in July 1959, and partly to the accumulation of undistributed income.

**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	329.4	35.0	600.0	600.0	—
1959 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	610.6	607.5	3.3
March . . . . .	104.5	123.5	297.9	85.5	611.4	607.5	3.9
April . . . . .	104.5	123.5	297.9	85.5	611.4	607.5	3.9
May . . . . .	104.5	123.5	297.9	85.5	611.4	607.5	3.9
June . . . . .	104.2	123.5	297.9	87.5	613.2	607.5	5.7
July . . . . .	104.0	123.5	297.9	87.5	613.0	607.5	5.5
August . . . . .	104.0	123.5	297.9	87.5	613.0	607.5	5.5
September . . . . .	104.5	123.5	297.9	87.5	613.4	607.5	5.9
October . . . . .	104.6	123.5	297.9	87.5	613.6	607.5	6.1
November . . . . .	104.6	123.5	297.9	87.5	613.6	607.5	6.1
December . . . . .	106.4	123.5	297.9	87.5	615.3	607.5	7.8
1961 January . . . . .	130.5	123.5	297.9	63.5	615.5	607.5	8.0
February . . . . .	129.7	123.5	297.9	64.0	615.1	607.5	7.6
March . . . . .	129.6	123.5	297.9	64.0	615.2	607.5	7.7

Contributions from member countries to the European Fund bear interest paid out of the income of the Fund at rates decided half-yearly. There have been three distributions to date, in April 1960 for the second half-year of 1959, and in July 1960 and February 1961 for the first and second half-years of 1960 respectively; each distribution was at the rate of 2 per cent. per annum.

\* \* \*

In December 1960 a new Convention was drawn up providing for the reconstitution of O.E.E.C. as the Organisation for Economic Co-operation and Development; this Convention, which was signed by all European members of the Organisation and by Canada and the United States, is to be ratified and brought into force during the current year. The European Monetary Agreement will continue within the new framework of O.E.C.D.

PART III

ACTIVITIES OF THE BANK.

1. Operations of the Banking Department.

The balance sheet of the Bank as at 31st March 1961, 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 1961 amounted to 3,973,433,539 gold francs, against 3,429,952,479 gold francs on 31st March 1960.

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

The following items are not included in the balance sheet: 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

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

Financial years	Total at end of year	Difference
	in millions of gold francs	
1956-57	2,181	
1957-58	2,232	+ 51
1958-59	3,528	+ 1,296
1959-60	3,430	- 98
1960-61	3,973	+ 543

31st March 1960, the amounts in question are shown at the foot of the assets column under the heading "Memorandum accounts (b)". The figures are given in the following table.

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

Items	31st March 1960	31st March 1961
	in millions of gold francs	
Earmarked gold . . . . .	1,038	1,268
Bank balances . . . . .	39	39
Bills and other securities . . . . .	1,021	1,031
Total of items not included in the balance sheet . . . . .	2,098	2,338

After having risen from 3,430 million gold francs at the beginning of the financial year to 3,911 million on 30th June 1960 and having subsequently undergone various fluctuations, the total of the first part of the monthly statement of account reached 4,183 million on 31st October 1960, owing to the fact that various of the Bank's correspondents were holding considerable sums with it, especially in gold. Thereafter this total fell more or less continuously until 31st January 1961, when the figure was 3,668 million; it then rose again, and at the end of the financial year it stood at 3,973 million.

COMPOSITION OF RESOURCES (liabilities).

A. Own funds.

The Bank's Share Capital remained unchanged at 500 million gold francs, of which 125 million was paid up.

The Reserves in the form of the Legal Reserve Fund and the General Reserve Fund rose from 22.6 million gold francs on 31st March 1960 to 23.4 million on 31st March 1961. 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 1961 and the balance brought forward from the preceding year, amounted to 22.8 million gold francs on 31st March 1961, against 24.6 million a year earlier. The amount of the item "Provision for contingencies" rose from 169.5 million gold francs on 31st March 1960 to 181.5 million on 31st March 1961. For the item "Miscellaneous" the figure was 19.6 million gold francs at the beginning of the year and 17.2 million at the end.

Thus, at the end of March 1961 the Bank's own funds amounted to 370 million gold francs, i.e. about 9 per cent. of the total of the balance sheet on the same date (3,973 million gold francs) and 10 per cent. of the total of deposits (3,603 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 1957 . . . . .	305	1,976	2,181
31st March 1958 . . . . .	323	1,909	2,232
31st March 1959 . . . . .	340	3,188	3,528
31st March 1960 . . . . .	361	3,069	3,430
31st March 1961 . . . . .	370	3,603	3,973

**B. Deposits.**

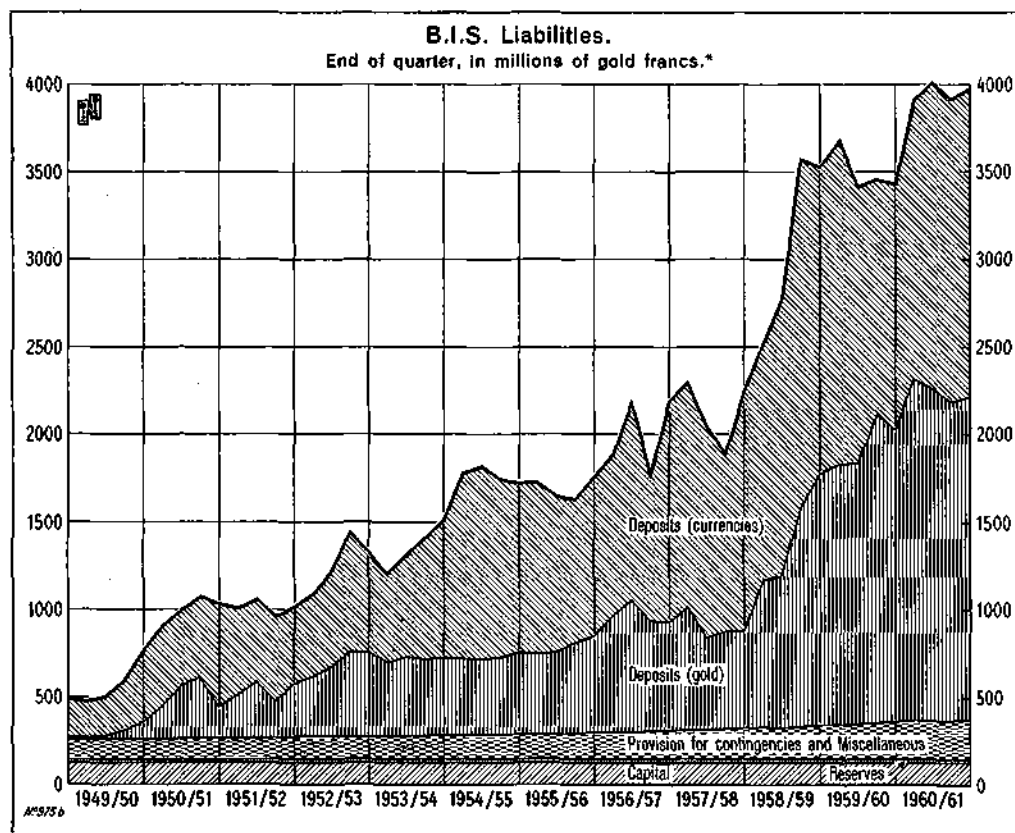
The following tables show the origin and term of the deposits received by the Bank (from central banks and other depositors).

Origin	31st March 1960	31st March 1961	Difference
	in millions of gold francs		
Central banks . . . . .	2,611	3,320	+ 709
Other depositors . . . . .	458	283	- 175
<b>Total . . . . .</b>	<b>3,069</b>	<b>3,603</b>	<b>+ 534</b>

The deposits of central banks showed a fairly appreciable increase, whereas those of "Other depositors" fell by more than one-third compared with their level at the beginning of the financial year.

Term	Deposits in gold			Deposits in currencies		
	31st March 1960	31st March 1961	Difference	31st March 1960	31st March 1961	Difference
	in millions of gold francs					
At sight . . . . .	1,055	1,399	+ 344	39	43	+ 4
At not exceeding 3 months . . . . .	533	426	- 107	1,183	1,458	+ 275
Between 3 and 6 months . . . . .	74	16	- 58	193	153	- 30
Between 6 and 9 months . . . . .	—	—	—	—	72	+ 72
Between 9 and 12 months . . . . .	—	—	—	2	—	- 2
Over one year . . . . .	—	—	—	—	36	+ 36
<b>Total . . . . .</b>	<b>1,662</b>	<b>1,841</b>	<b>+ 179</b>	<b>1,407</b>	<b>1,762</b>	<b>+ 355</b>

The above table shows that sight deposits in a weight of gold and time deposits in currencies increased substantially, whereas time deposits in a weight of gold declined to a certain extent. The expansion in sight deposits in a weight of gold was mainly due to sales of gold by the Bank to a number of its correspondents, the proceeds of which sales were temporarily left on account in the Bank's books. The Bank's forward gold operations, on the other hand, were appreciably reduced as a result of the events of last autumn on the gold markets; indeed, these caused the Bank to suspend for some time the greater part of its gold operations. This resulted in a parallel reduction in the time deposits entrusted to the Bank in a weight of gold, which it was no longer able to utilise.



**EMPLOYMENT OF RESOURCES (assets).**

The distribution of the Bank's assets according to their nature is shown in the following table.

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

Nature	31st March 1960		31st March 1961		Difference	
	in millions of gold francs					
<b>Cash</b>						
Gold . . . . .	1,561		1,887		+ 326	
Currencies . . . . .	55	1,616	95	1,982	+ 40	+ 366
<b>Investments</b>						
Gold . . . . .	152		101		- 51	
Currencies . . . . .	1,593	1,745	1,817	1,918	+ 224	+ 173
<b>Total</b>						
Gold . . . . .	1,713		1,988		+ 275	
Currencies . . . . .	1,648	3,361	1,912	3,900	+ 264	+ 539

The increase in the Bank's bullion holdings reflects the rise in deposits in a weight of gold, the reduction in investments in gold and the decline in forward gold operations, as is apparent from the following table, which shows the items which have to be taken into account in considering the Bank's

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						
1960						
March . . . .	1,561	152 (max.)	1,662	51	+ 255	306
April . . . .	1,513	140	1,652 (min.)	1	+ 302	303
May . . . . .	1,448 (min.)	134	1,954	- 372 (min.)	+ 655 (max.)	293 (min.)
July . . . . .	1,541	103	1,972 (max.)	- 328	+ 627	299
1961						
February . .	1,974	99 (min.)	1,720	253 (max.)	+ 55 (min.)	308 (max.)
March . . . .	1,887 (max.)	101	1,841	147	+ 143	290
Difference: 31st March 1960 to 31st March 1961 . . . .	+ 326	- 51	+ 179	+ 96	- 112	- 16

gold position as they stood on certain representative dates chosen so as to bring out the maximum and minimum figures for the year.

As will be seen from the above table, the total of forward operations varied considerably. Their very substantial decline from July 1960 to February 1961 shows the effects of the fluctuations on the gold market during that period, for, as has already been mentioned, the Bank did not renew its current operations and refrained from engaging in new transactions. In March, however, when the situation had become more normal again, the Bank resumed a certain activity in this field, with the agreement of the central banks concerned.

The distribution of the Bank's assets according to their term calls for the following observations.

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 1,561 million gold francs in the balance sheet of 31st March 1960. It touched its lowest level — 1,448 million — on 31st May and its highest point — 1,887 million — on 31st March 1961.

The figure for the item "Cash on hand and on sight account with banks" had been 55 million on 31st March 1960. It was only in the first few months of the financial year that it fell below this level, the lowest point — 41 million — having been reached on 31st July. It attained its highest level on 31st March 1961, at 95 million.

The average balance shown under this heading during the financial year 1960-61 was approximately 59 million gold francs, compared with about 56 million in the preceding financial year.

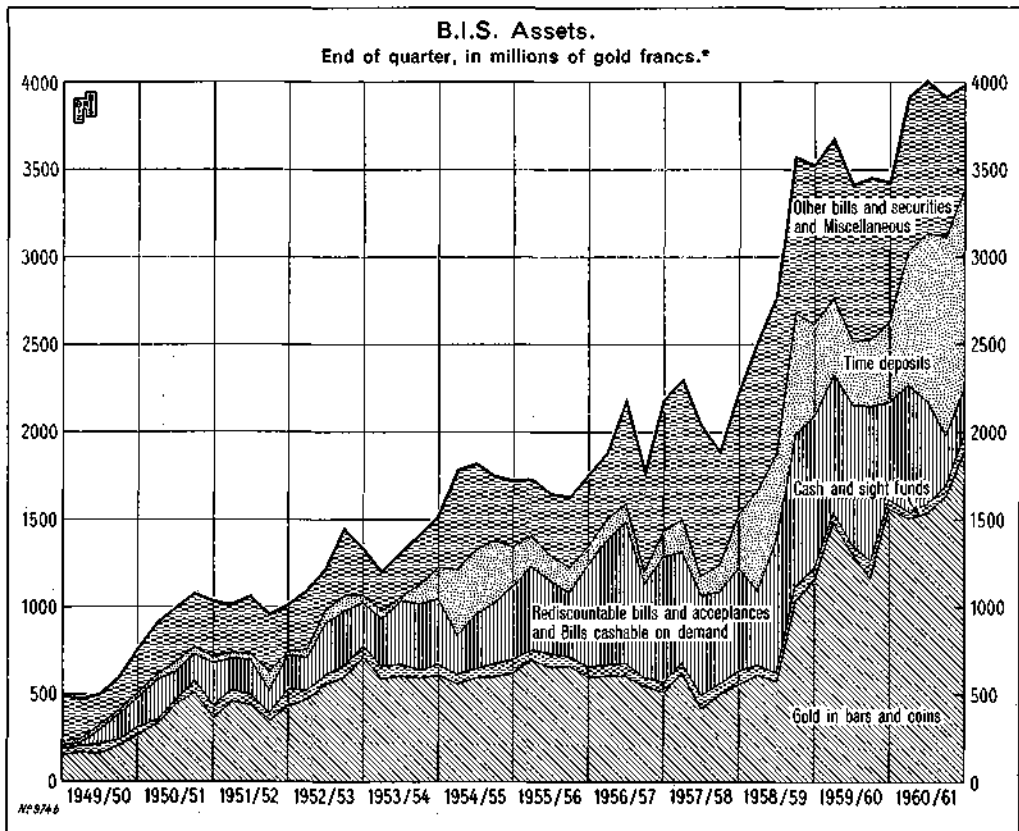
B.I.S.: Rediscountable portfolio.

End of month	Commercial bills and bankers' acceptances	Treasury bills	Total
	in millions of gold francs		
1960 March . . . . .	75	446	521
May . . . . .	84	647 (max.)	731 (max.)
June . . . . .	91 (max.)	590	681
November . . . . .	19 (min.)	393	412
1961 February . . . . .	19	105 (min.)	124 (min.)
March . . . . .	19	226	245

On 31st March 1961 total gold and currency holdings represented 49.9 per cent. of the total of the first part of the Bank's balance sheet, compared with 47.1 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 above table, which also gives the maximum and minimum figures for the items in question.

There were considerable fluctuations in both the items shown above. By the end of the financial year commercial bills and bankers' acceptances had fallen to almost negligible proportions. A number of substantial drawings were



\* First part of statement of account.



made on the portfolio of Treasury bills in order to help to meet movements of funds which were sometimes on a very large scale. Moreover, the downward trend of the rates of interest for this type of investment over a fairly long period, particularly on the American market, had considerably reduced its attractiveness.

The item "Sundry bills cashable on demand", which is relatively small, amounted to 38 million gold francs on 31st March 1960. Its highest level was 43 million on 30th June 1960 and its lowest 11 million on 31st January 1961. The figure on 31st March 1961 was 12 million.

The total of the Bank's sight funds and rediscountable investments, comprising the assets items so far analysed, was thus 2,175 million gold francs at the beginning of the financial year. It rose to its highest level on 31st October 1960, at 2,290 million, and reached its lowest point — 1,985 million — on 31st December 1960. The figure for 31st March 1961 — 2,238 million — was higher than that for the beginning of the financial year.

This figure represents 56.4 per cent. of the first part of the balance sheet, against 63.4 per cent. a year earlier. Although the percentage of sight deposits on the liabilities side rose during this period from 31.9 to 36.3, the degree of the Bank's liquidity is still very high.

#### B. Time deposits and investments.

There were fairly wide fluctuations during the year in the total of the item "Time deposits and advances". On 31st March 1960 it stood at 454 million gold francs; since then it has always been higher, standing at over one milliard gold francs during the second half of the year and reaching on 31st March 1961 its highest level of 1,138 million; it thus increased by 684 million during the financial year (investments in gold having declined by 7 million and investments in currencies having risen by 691 million).

The total of the item "Other bills and securities", which stood at 731 million gold francs on 31st March 1960, reached its highest point — 849 million — on 31st May 1960. After remaining around the level of 800 million until towards the end of 1960, the total subsequently declined and on 31st March 1961 it stood at 523 million, or 208 million below its level at the end of the previous financial year (investments in gold having fallen by 44 million and investments in currencies by 164 million). The lowest point — 503 million — was reached on 28th February 1961.

The frequently divergent trends of interest rates on the various markets led the Bank to diversify its investments to a greater extent than in the past. It also granted a number of new advances, which accounts for the marked increase in the total of the item "Time deposits and advances". Part of the decrease in "Other bills and securities" is due to the decline in investments in gold.

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 1960	31st March 1961	Difference
	in millions of gold francs		
Not exceeding 3 months . . . . .	1,048	1,353	+ 305
Between 3 and 6 months . . . . .	29	118	+ 89
Between 6 and 9 months . . . . .	25	120	+ 95
Between 9 and 12 months . . . . .	63	13	- 50
Over 1 year . . . . .	20	57	+ 37
<b>Total . . . . .</b>	<b>1,185</b>	<b>1,661</b>	<b>+ 476</b>

Nearly two-thirds of the Bank's new investments were time funds placed at less than three months, the maturities being arranged primarily to take account of liquidity considerations.

**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.

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

Financial years	In millions of gold francs
1956-57	45,448
1957-58	59,170
1958-59	47,811
1959-60	53,291
1960-61	47,313

The figure for the last financial year, which was some 10 per cent. lower than that for the preceding financial year, is comparable with that for the financial year 1958-59. It should be noted that the decrease is due to the introduction of various changes to simplify the accounting procedure, in particular with regard to operations previously entered in the form of swaps.

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

Financial years	In millions of gold francs
1956-57	7,004
1957-58	10,848
1958-59	8,716
1959-60	10,930
1960-61	8,221

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

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

Financial years	In millions of gold francs
1956-57	4,375
1957-58	5,205
1958-59	4,019
1959-60	7,096
1960-61	6,788

As was mentioned at the beginning of this chapter, the amount of earmarked gold on memorandum accounts (b) went up from 1,038 million gold francs on 31st March 1960 to 1,268 million on 31st March 1961.

The volume of exchange transactions was again considerable, as the accompanying table shows.

\* \* \*

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 in force 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 1960-61 ended for the Dawes Loan on 15th April 1961 and for the Young Loan on 1st June 1961. The interest in respect of the financial year 1960-61 amounted to the equivalent of about 17.1 million gold francs for the Dawes Loan and to the equivalent of about 42.7 million gold francs for the Young Loan; it was duly paid to the Bank, which distributed it among the Paying Agents. Redemption was effected in respect of the financial year 1960-61 for the most part by means of purchases of bonds on the market and for the rest by means of drawings. With regard to the Young Loan, the payment of the coupons due on 1st June 1961 was the subject of a reservation, the Bank having come to the conclusion that, following the revaluation of the Deutsche Mark, the amount payable should be recalculated on the basis of the new parity of that currency. The bondholders were informed of this by means of the following communiqué:

“Under the provisions of the London Agreement on German External Debts of 27th February 1953 (Annex I, Paragraph 2[e]) the Young Loan is provided with the following exchange guarantee:

‘Should the rates of exchange ruling any of the currencies of issue on 1st August 1952 alter thereafter by 5 per cent. or more, the instalments due after that date, while still being made in the currency of the country of issue, shall be calculated on the basis of the least depreciated currency (in relation to the rate of exchange current on 1st August 1952) reconverted into the currency of issue at the rate of exchange current when the payment in question becomes due.’

The Trustee considers that the conditions laid down in the above provision are fulfilled in the case of the revaluation of the Deutsche Mark of March 1961. In its opinion, holders of bonds of all issues of the Young Loan except the German issue are therefore entitled to have the instalments due after the revaluation of the Deutsche Mark recalculated on the basis of the new parity of the Deutsche Mark. The Trustee has notified the Bundesschuldenverwaltung of its opinion and requested the latter to make additional funds available in order to enable the Trustee to have the coupons due on 1st June 1961 paid on the new basis.

The Bundesschuldenverwaltung will probably not adopt a definite position in this matter before 1st June 1961, as the Trustee, after thoroughly examining the question and obtaining legal opinions, was only able to notify the Bundesschuldenverwaltung of its standpoint a few days ago.

The Trustee has accordingly instructed the Paying Agents to pay the coupons due on 1st June 1961 on the old basis and to take all the necessary steps to reserve the rights of the bondholders with regard to the additional payment which, in the Trustee's opinion, is due to them."

The position as regards the Dawes and Young Loans is as shown in the following tables.

**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 and 1959-60	1960-61	
<b>Conversion bonds</b>					
American . . .	\$	43,895,000	2,761,000	1,507,000	39,627,000
Belgian . . . .	£	582,100	29,800	14,200	538,100
British . . . .	£	8,260,200	408,600	209,800	7,641,800
Dutch . . . . .	£	1,009,700	29,900	34,400	945,400
French . . . . .	£	1,921,600	93,400	47,100	1,781,100
Swedish . . . .	S. Kr.	14,209,000	583,000	328,000	13,298,000
Swiss . . . . .	£	1,123,800	55,900	26,200	1,041,700
Swiss . . . . .	Sw.fcs.	8,247,000	341,000	183,000	7,723,000
<b>Funding bonds</b>					
American . . . .	\$	8,167,000	496,000	259,000	7,412,000
Belgian . . . . .	£	157,400	11,500	4,000	141,900
British . . . . .	£	2,229,200	155,300	57,700	2,016,200
Dutch . . . . .	£	221,100	7,700	10,200	203,200
French . . . . .	£	496,800	36,200	12,400	448,200
Swiss . . . . .	£	114,800	7,800	2,800	104,200
Swiss . . . . .	Sw.fcs.	414,000	23,000	12,000	379,000

**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 and 1959-60	1960-61	
<b>Conversion bonds</b>					
American . . .	\$	55,158,000	1,124,000	639,000	53,395,000
Belgian . . . .	B.fcs.	202,550,000	4,241,000	2,324,000	195,985,000
British . . . .	£	17,669,400	366,400	201,600	17,121,400
Dutch . . . . .	Fl.	38,569,000	592,000	654,000	37,323,000
French . . . . .	NF	443,534,000	9,151,000	5,041,000	429,342,000
German . . . . .	DM	14,431,000	253,000	204,000	13,974,000
Swedish . . . .	S.Kr.	92,754,000	1,927,000	1,062,000	89,765,000
Swiss . . . . .	Sw.fcs.	58,319,000	1,230,000	669,000	56,420,000
<b>Funding bonds</b>					
American . . .	\$	8,937,000	195,000	103,000	8,639,000
Belgian . . . .	B.fcs.	45,599,000	999,000	534,000	44,066,000
British . . . . .	£	4,220,500	94,000	48,800	4,077,700
Dutch . . . . .	Fl.	5,330,000	65,000	118,000	5,147,000
French . . . . .	NF	97,710,000	2,117,000	1,094,000	94,499,000
German . . . . .	DM	409,000	8,000	5,000	396,000
Swedish . . . .	S.Kr.	6,014,000	136,000	69,000	5,809,000
Swiss . . . . .	Sw.fcs.	1,405,000	32,000	16,000	1,357,000

\* Nominal value on 15th May 1961 established in accordance with the provisions of the London Agreement on German External Debts of 27th February 1953 on the basis of the rates of exchange ruling on 1st March 1961.

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 of the loan has been completed, except in the case of the American issue. The amount of interest due in respect of the financial year 1960, which in the case of this loan corresponds to the calendar year, was the equivalent of about 1.6 million gold francs; this was duly paid to the Bank, which distributed it among the Paying Agents.

Redemption in respect of the financial year 1960 was mainly carried out by purchases of bonds on the market and for the rest by drawings.

**Austrian Government International Loan 1930.**

Issue	Currency	Nominal value			
		Bonds assented	Bonds purchased or drawn for redemption in respect of the financial years		Balance after redemption
			1959	1960	
American . . .	\$	1,652,000	70,000	73,000	1,509,000
Anglo-Dutch .	£	956,600	30,200	30,700	795,700
Swiss . . . . .	Sw.fcs.	7,102,000	213,000	210,000	6,679,000

The position as regards the assented bonds of this loan is as shown in the table on the preceding page.

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 an 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.

In October 1960 the High Authority issued in the United States a further loan consisting of a medium-term tranche of \$10 million in the form of notes with rates of interest ranging from  $4\frac{3}{4}$  to 5 per cent. and a long-term tranche of \$25 million in the form of  $5\frac{3}{8}$  per cent. bonds repayable in twenty years. In addition, in January 1961 the High Authority contracted a loan in Luxemburg for an amount of 100 million Luxemburg francs at  $5\frac{1}{4}$  per cent. repayable in twenty-five years, which loan was granted by the Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg.

As a result of these two operations, the total amount of the loans contracted by the High Authority in accordance with the provisions of the Act of Pledge reached the equivalent of about 775 million gold francs. Repayments by the High Authority up to 1st April 1961 amounted to the equivalent of about 54 million gold francs, which reduces the total amount outstanding to the equivalent of about 721 million gold francs. Particulars of these loans are given in the table on the opposite page.

The High Authority uses the proceeds of these loans to grant credits in the member countries of the European Coal and Steel Community. If all or part of the proceeds of a loan cannot be utilised immediately for this purpose, the funds available are invested at short term.

During the financial year 1960-61 the Bank for International Settlements received and paid out the equivalent of about 30 million gold francs in respect of interest and the equivalent of about 22 million gold francs in respect of redemption.

**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 1961	Rates of interest %	Periods of loans (years)
1st	1954	United States	U.S. Government	\$ 100,000,000	90,800,000	3%	25
2nd	1955	Belgium	Caisse Générale d'Epargne et de Retraite, Brussels	B.fcs. 200,000,000	184,400,000	3½	27
3rd	1955	Germany	Rheinische Girozentrale und Provinzialbank, Düsseldorf	DM 25,000,000	22,317,650	3%	26
			Landesbank für Westfalen (Girozentrale), Münster	DM 25,000,000	22,317,650	3%	26
4th	1955	Luxemburg	Caisse d'Epargne de l'Etat, Luxemburg	B.fcs. 20,000,000 Lux.fcs. 5,000,000	18,440,000	3½	27
5th	1956	Saar	Landesbank und Girozentrale Saar, Saarbrücken	DM 2,977,450*	2,682,682	4¼	21
6th	1956	Switzerland	Public issue	Sw.fcs. 50,000,000	50,000,000	4¼	18
7th	1957	United States	Public issue	\$ 25,000,000	25,000,000	5%	18
8th			Public issue	\$ 7,000,000	2,380,000	5	3-5
9th			Bank loans	\$ 3,000,000	1,020,000	5	3-5
10th	1957	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	Lux.fcs. 100,000,000	100,000,000	5%	25
11th	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
13th	1960	United States	Public issue	\$ 25,000,000	25,000,000	5%	20
14th			Public issue	\$ 3,300,000	3,300,000	4¾	3
			Public issue	\$ 3,300,000	3,300,000	4¾	4
15th	1961	Luxemburg	Etablissement d'Assurance contre la Vieillesse et l'Invalidité, Luxemburg	\$ 3,400,000	3,400,000	5	5
				Lux.fcs. 100,000,000	100,000,000	5%	25

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

**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 have been described in previous Annual Reports of the Bank and the description is brought up to date in Chapter VI of Part II 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 554,699 gold

francs in the twelve months to March 1961; this amount has been duly reimbursed by the Organisation (as shown in the Profit and Loss Account for the financial year ended 31st March 1961).

#### 5. Financial results.

The accounts for the thirty-first financial year ended 31st March 1961 showed a surplus of 27,324,105 gold francs, the gold franc being as defined in Article 5 of the Bank's Statutes, i.e. the equivalent of 0.29032258... grammes of fine gold. The comparable figure for the preceding financial year was 29,064,716 gold francs.

The net amount of interest, discount and commission earned was fractionally less 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 1961, 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 the lower of cost or net realisable value.

From the surplus of 27,324,105 gold francs, the Board of Directors has decided to transfer 350,000 gold francs to the provision for exceptional costs of administration and 12,000,000 gold francs to the provision for contingencies.

The net profit for the year thus amounts to 14,974,105 gold francs. After providing 5 per cent. for the Legal Reserve Fund as required by the Statutes, i.e. 748,705 gold francs, and with the addition of the balance of 7,828,908 gold francs brought forward from the previous year, there is a sum of 22,054,308 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 results of the financial year 1960-61 the Board also proposes that, as an exceptional measure, a lump sum should be applied to the reduction of the amount of the undeclared cumulative dividend. This sum, which has been fixed at 7,000,000 gold francs, will represent an extraordinary distribution of 35 gold francs per share.

The total distribution will thus amount this year to 72.50 gold francs, payable on 1st July 1961 in the amount of 103.60 Swiss francs per share. The balance carried forward will be 7,554,308 gold francs.



The amount of the undeclared cumulative dividend will, as a result of this distribution, be reduced from 326.97 to 291.97 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 thirty-first Annual Balance Sheet have been duly audited by Messrs. Price Waterhouse & Co., Zurich. The Balance Sheet, the Report of the Auditors and the Profit and Loss Account will be found at the end of this Report.

#### **6. Changes in the Board of Directors and in Executive Officers.**

The mandate of M. Maurice Frère as a member of the Board being due to expire on 7th August 1960, M. Ansiaux, Governor of the National Bank of Belgium, re-appointed him in July 1960 under Article 28(2) of the Statutes for a further period of three years, ending 7th August 1963.

Dr. Donato Menichella resigned as Governor of the Bank of Italy in August 1960 and was succeeded by Dr. Guido Carli, who thus became an ex officio member of the Board of Directors of the Bank for International Settlements as from 19th August 1960. At the meeting of the Board held on 12th September 1960 Dr. Carli was warmly welcomed by the Chairman on the occasion of his first attendance as a Director. At the same time the Chairman, interpreting the wishes of the whole Board, paid a tribute to Dr. Menichella for the eminent services he had rendered to the Bank during his twelve years of office as a Director.

The mandate of Professor P. Stoppani as a member of the Board expired on 7th November 1960. Dr. G. Carli, Governor of the Bank of Italy, appointed Dr. D. Menichella in the place of Professor Stoppani under Article 28(2) of the Statutes for a period of three years, ending 7th November 1963.

At the meeting of the Board held on 7th November 1960 the Chairman announced that Dr. Carli had appointed Dr. Paolo Baffi, General Manager of the Bank of Italy, and in his absence Professor Stoppani, as his Alternates. At the same meeting the Chairman expressed his appreciation for the valuable services which Professor Stoppani had given to the Bank over a long period as a Director and wished him every success in the new tasks which the Bank of Italy had entrusted to him in Paris.

The mandate of Dr. M. W. Holtrop as a Director being due to expire on 31st March 1961, he was re-elected in this capacity under Article 28(3) of the Statutes at the meeting of the Board held on 13th March 1961 for a further period of three years, ending 31st March 1964.

At the meeting of the Board held on 9th May 1960 Dr. Milton Gilbert was appointed Economic Adviser and Head of the Monetary and Economic Department with effect from 1st November 1960. Dr. Gilbert thus filled the post which had been vacant since Mr. Per Jacobsson left the Bank's service in the autumn of 1956 to take up an appointment as Managing Director of the International Monetary Fund.

In June 1960 Dr. Antonio Rainoni, formerly Research Sub-Manager, who had assured the interregnum with the highly appreciated assistance of two external consultants, Professor Friedrich Lutz and Dr. Paolo Baffi, was appointed Assistant Manager of the Monetary and Economic Department.

## CONCLUSION

Developments in 1960 and the first few months of 1961 confirm the economic vigour of the industrialised countries of the West. In the O.E.E.C. countries production, consumption and investment continued to rise and in most of them full employment was maintained. The gross national product increased last year by 6 per cent. in comparison with 1959, and there was a rise in the proportion of output devoted to investment. Freedom of international trade and payments was increased: leaving aside the agricultural sector, nearly all the remaining quantitative restrictions on imports were removed, and facilities in respect of capital transfers were extended. In the United States, after a short and fairly mild recession, which was reflected in a decline of no more than 2 per cent. in the gross national product, the upward trend seems to have been resumed.

Industrial production in the countries of eastern Europe also made remarkable headway. In spite of the difficulties which these countries encountered in the agricultural sphere, they recorded an increase in national income of more than 7 per cent. compared with 1959.

The predominantly raw-material-producing countries found larger outlets in the industrialised countries, although basic commodity prices were tending downwards. In 1960 these countries increased their total sales to western Europe and North America to \$21.5 milliard, or by 5 per cent. At the same time they benefited from generally stable prices for their purchases of European and American goods.

Recent developments have also brought out some of the weak points in the economies of the industrialised countries of the West and some of the basic problems which they have to solve.

1. Although the difficulties confronting these countries may have been different (recessions in the United States and Canada, balance-of-payments deficits in the United States and the United Kingdom and pressure on resources in continental Europe), they had, in part, a common origin in actual or potential cost/price inflation.

The reason why the United States in 1959 adopted a financial policy which exerted a restraining influence on economic activity was that balance-of-payments considerations obliged it to curb the unduly strong upward trend shown, especially in certain sectors, by industrial prices — a trend that was due not to monetary inflation but to the wage push and the quasi-monopolistic positions of some producers. Today, whilst the balance-of-payments situation has improved considerably, the danger of price rises has not been entirely eliminated, and the Administration must necessarily take this problem into account in its plans for restoring a more satisfactory level of employment. In Canada, too, the government is faced with a conflict

between its desire to reduce unemployment and its anxiety to avoid a further increase in the already high level of industrial prices.

In the United Kingdom the increase in costs did not, in 1960, lead to under-employment. It has, however, been the main reason for the difficulties which the government has encountered in the last few years in attempting to reconcile economic expansion with external payments equilibrium.

The strains which made themselves felt on the continent of Europe were in large measure due to disequilibria in international payments. But, in addition, there are in most countries on the Continent permanent internal sources of upward pressure deriving from wage claims and the privileged position of certain industries, so that the danger of an inflationary spiral developing is a source of constant concern for the public authorities. This has made the governments' tasks under the conditions recently prevailing even more delicate and explains why sometimes, in order not to lose control over price developments, they have taken steps which, as it turned out, prolonged rather than eased the imbalance in the external payments position.

Thus may be seen the consequences of the persistent tendency apparent in many of the industrialised countries of the West for wages and industrial profits to rise more rapidly than is warranted by productivity gains.

But, whatever past excesses may have been, there exists today, on both sides of the Atlantic, a greater awareness of the fundamental nature of this problem. Efforts have been made to give wage-earners and employers a better idea of the interconnection between their decisions and the purchasing power of money and to induce them to co-operate freely in a reasonable distribution of the fruits of productivity gains. Of particular interest in this context is the Advisory Committee recently set up by the President of the United States. It would be difficult to overstress the importance attaching to the success of these efforts.

2. In a few western countries governments have been reluctant to make sufficient use of all the resources at their command, in particular those of fiscal policy, to remedy internal or external disequilibria.

These disequilibria clearly call for great flexibility in economic and monetary policies. Countries which are experiencing the effects of an overall external payments surplus must avoid budget surpluses likely to prolong the disequilibrium; with regard to those sectors of the economy most sensitive to inflationary pressure, such as the building sector, measures of stimulation must be avoided and a policy of restraint pursued. Countries suffering from cyclical unemployment may reduce the weight of taxation; they may also increase public expenditure, in particular investment expenditure, resorting, if need be, to borrowing.

When the public authorities do not employ the means of action at their disposal, the monetary authorities are confronted with the task of intervening alone with their own weapons. But monetary policy — as has often been

pointed out — is not all-powerful. Unless used as part of an overall economic and financial strategy, it may prove ineffective.

Indeed, it may even do harm. For if it is given too exclusive responsibility for correcting internal disequilibria, there is a danger that international considerations may thereby be neglected. This is the explanation for the inadequate co-ordination of national monetary policies which was observed last year. The large-scale movements of short-term capital were partly the result of excessive reliance on monetary means as instruments of stabilisation policy.

These problems are better understood today than they were a year ago. The regulative powers proposed in the last British budget are evidence of this. And it is encouraging to observe that a large group of countries, comprising the countries of western Europe, the United States and Canada, have decided to try and adapt their cyclical policies in consultation with each other within the O.E.C.D.

3. A third point is the risk of large-scale international movements of short-term capital and the disturbances which these may cause in the international monetary system.

The return to convertibility and the relaxation of exchange controls have made it possible again for a considerable volume of funds to be shifted from one country to another — sight and short-term dollar or sterling balances of residents of countries other than the United States or the United Kingdom, and funds in national currencies of residents of countries without exchange control. Such transfers are not necessarily undesirable. But if movements of funds from a given centre become too great, a dangerous situation may result for the international monetary system. Risks of this kind arose recently under the combined influence of balance-of-payments disequilibria, various other unfavourable circumstances and a certain lack of co-ordination of policies. The fever which affected the free gold market in October 1960 and the exchange market in March 1961 has now abated; moreover, monetary policies are now better harmonised. But not all dangers have been eliminated.

The problem is not one of a shortage of international liquidity; for, in addition to the reserves of the central banks and the commercial banks, there are the resources of the International Monetary Fund, which have recently been increased and only a small part of which is at present employed. Nor is it one of an inherent defect in the present monetary system. The problem is one of allaying nervousness and of strengthening confidence in the major currencies.

The solution lies, above all, in restoring a reasonable basic equilibrium in balances of payments. This is certainly not an easy matter, but if it is neglected no palliative can be successful.

If, on the other hand, a gradual correction of the imbalances can reasonably be expected, it is possible and, indeed, advisable to take steps to

mitigate the effects of abnormally large outflows of funds. In fact, in so far as it is likely that funds withdrawn from certain centres will soon return there, it is natural and desirable that the countries concerned should be granted short-term credits.

This is a matter for which the central banks are particularly qualified. Those chiefly concerned, namely the Federal Reserve System, the Bank of England and the principal central banks of continental western Europe, have indeed intensified their co-operation in the course of the last few months. The Bank for International Settlements is for them a natural meeting place and is at the same time, if the need arises, an instrument through which they can take action. And, by combining their resources, they can command a considerable "masse de manœuvre".

Can central-bank action of this kind be sufficient? Should short-term credits from one bank to another be supplemented or extended by governmental arrangements that would provide credits which could be larger in scale and longer in duration? In particular, to what extent and in what form are fresh resources required in addition to those already available at the International Monetary Fund? This is a debatable point, and one which is at present being actively discussed. It is difficult to deny that inter-governmental credits granted for the purpose of smoothing out the effects of temporary movements of funds can form a valuable safeguard, even if in fact they do not have to be used. On the other hand, if such credits were diverted to other purposes they could do more harm than good. Any arrangement which may be devised will have to be such as to avoid this risk.

Respectfully submitted,

GUILLAUME GUINDEY

General Manager.

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

**AS AT 31st MARCH 1961**

# BALANCE SHEET

ASSETS

IN GOLD FRANCS (UNITS OF 0.290 322 58...)

		<u>%</u>
<b>Gold in bars and coins</b> ... ..	1,887,105,774	47.5
<b>Cash on hand and on sight account with banks</b> ... ..	94,409,375	2.4
<b>Rediscountable bills and acceptances</b>		
Commercial bills and bankers' acceptances ... ..	19,297,122	0.5
Treasury bills ... ..	<u>226,071,659</u>	5.7
	245,368,781	
<b>Sundry bills cashable on demand</b> ... ..	11,588,964	0.3
<b>Time deposits and advances</b>		
Not exceeding 3 months ... ..	1,002,683,147	25.2
» » » (gold) ... ..	3,405,463	0.1
Between 3 and 6 months ... ..	48,692,312	1.2
Between 6 and 9 months ... ..	76,378,220	1.9
Over 1 year ... ..	<u>7,135,025</u>	0.2
	1,138,294,167	
<b>Other bills and securities</b>		
<b>Gold</b>		
Not exceeding 3 months ... ..	12,231,662	0.3
Between 3 and 6 months ... ..	65,322,916	1.7
Between 6 and 9 months ... ..	20,598,850	0.5
<b>Currencies</b>		
Not exceeding 3 months ... ..	334,638,612	8.4
Between 3 and 6 months ... ..	3,517,899	0.1
Between 6 and 9 months ... ..	23,419,416	0.6
Between 9 and 12 months ... ..	12,818,409	0.3
Over 1 year ... ..	<u>50,378,788</u>	1.3
	522,926,552	
<b>Miscellaneous assets</b> ... ..	5,448,702	0.1
<b>Buildings and equipment</b> ... ..	1	0.0
<b>Own funds employed</b> in execution of the Hague Agreements of 1930 for investment in Germany (see below) ... ..	<u>68,291,223</u>	<u>1.7</u>
	<u>3,973,433,539</u>	<u>100</u>
<b>Execution of Hague</b>		
<b>Funds invested in Germany</b> (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>	
<b>MEMORANDUM ACCOUNTS</b>		
a. Forward gold operations —		
Net balance: gold receivable (currencies to be delivered) ... ..	142,739,597	
b. Funds, bills and other securities administered or held by the Bank for account of third parties:		
Earmarked gold ... ..	1,267,866,347	
Bank balances ... ..	39,250,574	
Bills and other securities ... ..	1,031,163,095	

**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, 3rd May 1961.



# AS AT 31st MARCH 1961

GRAMMES FINE GOLD — ART. 5 OF THE STATUTES)

## LIABILITIES

		%
<b>Capital</b>		
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	3.1
<b>Reserves</b>		
Legal Reserve Fund	10,029,381	
General Reserve Fund	<u>13,342,650</u>	
	23,372,031	0.6
<b>Deposits (gold)</b>		
Central Banks:		
Between 3 and 6 months	10,340,455	0.3
Not exceeding 3 months	408,767,987	10.3
Sight	1,372,608,276	34.5
Other depositors:		
Between 3 and 6 months	5,903,525	0.1
Not exceeding 3 months	17,720,105	0.4
Sight	<u>26,279,727</u>	0.7
	1,841,620,075	
<b>Deposits (currencies)</b>		
Central Banks:		
Over 1 year	35,755,478	0.9
Between 6 and 9 months	71,456,487	1.8
Between 3 and 6 months	153,408,107	3.9
Not exceeding 3 months	1,245,703,882	31.4
Sight	22,643,306	0.6
Other depositors:		
Not exceeding 3 months	212,500,987	5.3
Sight	<u>20,478,961</u>	0.5
	1,761,947,208	
<b>Miscellaneous</b>	17,191,212	0.4
<b>Profit and Loss Account</b>		
Balance brought forward from the financial year ended 31st March 1960	7,826,908	
Profit for the financial year ended 31st March 1961	<u>14,974,105</u>	
	22,803,013	0.6
<b>Provision for contingencies</b>	<u>181,500,000</u>	4.6
	<u>3,973,433,539</u>	<u>100</u>
<b>Agreements of 1930</b>		
<b>Long-term deposits</b>		
Annuity Trust Account Deposits of Creditor Governments (see Note 3)	152,606,250	
German Government Deposit	<u>76,303,125</u>	
	228,909,375	
<b>Own funds employed in execution of the Agreements (see above)</b>	<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 1965 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 1961, 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 1961

		Gold francs
Net income from the use of the Bank's own funds and the deposits entrusted to it		31,648,628
Commission earned as Trustee, etc. ... ..		<u>676,286</u>
		32,324,912
Costs of administration:		
Board of Directors — fees and travelling expenses ...	225,071	
Executives and staff — salaries, pension contributions and travelling expenses ... ..	4,305,353	
Rent, insurance, heating, electricity ... ..	40,650	
Renewals and repairs of buildings and equipment ...	118,335	
Office supplies, books, publications, printing ... ..	375,422	
Telephone, telegraph and postage ... ..	173,043	
Experts' fees (auditors, interpreters, economists, etc.)	94,792	
Cantonal taxation ... ..	35,346	
Miscellaneous ... ..	<u>187,494</u>	
	5,555,506	
Less: Amounts recoverable for expenses as Agent of the Organisation for European Economic Co-operation (European Monetary Agreement) ... ..	<u>554,699</u>	<u>5,000,807</u>
		27,324,105
The Board of Directors has decided that it is necessary to transfer to the provision for exceptional costs of administration	350,000	
to the provision for contingencies ... ..	<u>12,000,000</u>	<u>12,350,000</u>
NET PROFIT for the financial year ended 31st March 1961 ... ..		14,974,105
Add: Balance brought forward from the preceding year ... ..		<u>7,828,908</u>
Total profits available ... ..		<u><u>22,803,013</u></u>

which the Board of Directors recommends to the Annual General Meeting called for 12th June 1961 should be dealt with as follows:

Transfer to the Legal Reserve Fund — 5% of 14,974,105 ... ..	748,705
Dividend of 37.50 gold francs, plus an amount of 35.— gold francs which increases the distribution to 72.50 gold francs per share and reduces the amount of the undeclared cumulative dividend from 326.97 gold francs to 291.97 gold francs per share ... ..	14,500,000
Balance to be carried forward ... ..	<u>7,554,308</u>
	<u><u>22,803,013</u></u>

## BOARD OF DIRECTORS

Dr. M. W. Holtrop, Amsterdam Chairman of the Board of Directors,  
President of the Bank

Sir Otto Niemeyer, London Vice-Chairman

Hubert Ansiaux, Brussels  
Karl Blessing, Frankfurt a/M.  
Dr. Rudolf Brinckmann, Hamburg  
Jacques Brunet, Paris  
Dr. Guido Carli, Rome  
Lord Cobbold, P. C., London  
Henri Deroy, Paris  
Maurice Frère, Brussels  
Dr. Donato Menichella, Rome  
Dr. W. Schwegler, Zurich  
Per Åsbrink, Stockholm

### Alternates

Dr. Paolo Baffi, Rome, or  
Prof. P. Stoppani, Rome  
Pierre Calvet, Paris, or  
Julien Koszul, Paris  
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. Milton Gilbert	Economic Adviser, Head of Monetary and Economic Department
Dr. H. H. Mandel	Manager
<hr/>	
D. H. Macdonald	Assistant Manager
Georges Royot	Assistant Manager
Henri Guisan	Legal Adviser
Malcolm Parker	Administrative Assistant Manager
Dr. Antonio Rainoni	Assistant Manager of the Monetary and Economic Department
Jan Knap	Sub-Manager